



# California

Forms & Instructions

# 565

## 2000

Partnership Tax Booklet

Members of the Franchise Tax Board

Kathleen Connell, Chair  
Dean Andal, Member  
B. Timothy Gage, Member

### This booklet contains:

**Form 565**, Partnership Return of Income

**FTB 3885P**, Depreciation and Amortization

**FTB 3538**, Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs

**Schedule D (565)**, Capital Gain or Loss

**Schedule K-1 (565)**, Partner's Share of Income, Deductions, Credits, etc.

**Save Time, Paper, and Money!!!**  
**Put up to 12,000 K-1s on a diskette or**  
**300,000+ K-1s on CD.**  
**File 565 K-1s via Magmedia.**

Bulk Rate  
U.S. Postage Paid  
Sacramento, CA  
Permit No. 312



STATE OF CALIFORNIA  
**FRANCHISE TAX BOARD**

# Table of Contents

---

**General Information** ..... 3

Instructions for Form 565 ..... 9

Instructions for Schedule K (565) and Schedule K-1 (565) ..... 11

**Form 565** ..... 17

**Schedule K-1 (565)** ..... 25

**FTB 3885P/Schedule D** ..... 29

Instructions for FTB 3885P/Schedule D ..... 33

**FTB 3538 and Instructions** ..... 35

Partner’s Instructions for Schedule K-1 (565) ..... 37

Codes for Principal Business Activity ..... 45

How to Get California Tax Information ..... 48

# 2000 Instructions for Form 565, Partnership Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1998**, and to the California Revenue and Taxation Code (R&TC).

## General Information

### A What's New

#### Exclusion of Interest Received for the Refund of the Smog Impact Fee

For partnerships that claimed a business expense deduction for the smog impact fee when it was paid, the refund and the interest on the refund are both includible in California gross income.

#### Income vs. Taxable Year

Effective for years beginning on or after January 1, 2000, references to "income year" were replaced with "taxable year" in all provisions of the Bank and Corporation Tax Law (B&CTL), the Administration of the Franchise and Income Tax Law (AFITL), and the Personal Income Tax Law (PITL). Therefore, all forms and instructions have been revised to replace the term "income year" with "taxable year." When referring to an income measurement period beginning before January 1, 2000, the term "taxable year" should be interpreted to mean "income year" as that term applied for those periods prior to January 1, 2000.

#### New Credit Available

The Natural Heritage Preservation Tax Credit will be available as of January 1, 2000.

#### Repealed Credit

The Salmon & Steelhead Trout Habitat Restoration Credit, as of December 1, 2000, has been repealed.

### B Important Information

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to most of the changes made to the IRC by the Federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) and has not conformed to any of the changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Corrections Act of 1999 (Public Law 106-36), and the Ticket to Work and Work Incentive Improvement Act of 1999 (Public Law 106-170).

#### Providing California and Federal Returns

The Franchise Tax Board (FTB) may request a copy of California or federal returns that are subject to or related to a federal examination. Generally, the California statute of limitations is four years from the due date of the return or from the date filed, whichever is later. However, the statute is extended in situations in which an individual or a business entity is under examination by the Internal Revenue Service (IRS). For additional information concerning extended statute of limitation due to a federal examination, see General Information K, Amended Return.

The FTB recommends keeping copies of returns and records that verify income, deductions, adjustments, or credits reported, for at least the minimum time required under the statute of limitations. However, some records should be kept much longer. For example, partners should keep records substantiating their basis in a partnership and property owners should keep records to figure the basis of property.

#### Qualified Small Business Stock

California Revenue and Taxation Code (R&TC) Section 18152.5 provides an exclusion (similar to the federal exclusion under IRC Section 1202) of 50% of the gain on the sale of qualifying small

business stock originally issued after August 10, 1993 that was held for more than 5 years. However, for California purposes, 80% of the issuing corporation's payroll must be attributable to employment located within California and at least 80% of the value of the corporation's assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California.

California tax law does not conform to the alternative minimum tax provision of IRC Section 57(a) for qualified small business stock. For California purposes, the partnership should include an item of tax preference equal to 50% of the amount excluded from gross income under R&TC Section 18152.5 on the Schedule K-1 (565), Partner's Share of Income, Credit, Deductions, etc., (R&TC Section 17062).

#### California Tax Information on the Internet

You may download, view, and print 1994 through 2000 California forms and publications. Go to our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov)

#### Federal Tax Information on the Internet

The IRS also has federal forms and publications available to download, view, and print. The IRS's Website is at: [www.irs.gov](http://www.irs.gov)

#### Substitute Schedule K-1 (565)

The FTB recommends filing **paperless** substitute Schedule K-1 (565), Partner's Share of Income, Credit Deductions, etc. Since you or your tax professional probably already use software to prepare Form 565 and Schedules K-1 (565), you already have the information you need to prepare paperless Schedules K-1 (565). This is because once you have the information in a database or spreadsheet, it's easy to transfer into the paperless Schedule K-1 (565) record layout and download it to a CD or diskette.

Partnerships or their tax professional must get approval from the FTB to use a substitute Schedule K-1 (565), if the partnership:

- Wants to use paperless Schedule K-1 (565);
- Does not use the official California Schedule K-1 (565) prepared by the FTB; or
- Does not use a software program with an FTB approved Schedule K-1 (565).

The FTB does not allow the federal Schedule K-1 (1065) as a substitute schedule.

For more information, see General Information T, Substitute Schedules.

#### Federal/State Differences

California tax law generally conforms to federal tax law in the area of partnerships (Internal Revenue Code, Subchapter K – Partners and Partnerships). However, there are some differences:

- An annual tax is generally imposed on limited partnerships, limited liability companies (LLC), limited liability partnerships (LLP), and real estate mortgage investment conduits (REMICs) that are partnerships or are classified as partnerships for tax purposes.
- Distributions to certain nonresident partners are subject to withholding for California tax.
- Deduction for taxes paid to other states is not allowed.
- California follows federal law by requiring partnerships to use a required tax year. However, California does not conform to the federal required payment provision.
- California law has specific provisions concerning the distributive share of partnership taxable income allocable to California, with special apportionment formulas for professional partnerships.
- California law modifies the federal definitions for unrealized receivables and substantially appreciated inventory items.

- California does not conform to the electing large partnership provisions.
- Partnerships cannot electronically file their California partnership returns.
- California has not conformed to the provisions relating to the Tax Equity and Fiscal Responsibility Act (TEFRA).
- California has not adopted the federal definition of small partnerships, as defined in IRC Section 6231.

**Please Note:** This list is not intended to be all-inclusive for the federal and state differences. For additional information, please consult California's R&TC.

#### **Conversion to a Limited Liability Company**

A partnership that converts to an LLC during the year must file two California returns. Even if the partners/members and the business operations remain the same, the partnership should file Form 565, Partnership Return of Income, for the beginning of the year to the date of change. For the remainder of the year, the newly converted LLC would file Form 568, Limited Liability Company Return of Income. See General Information J, Accounting Periods, for further instructions.

#### **Revised Uniform Partnership Act (RUPA)**

California has enacted RUPA which applies to partnerships formed after January 1, 1997. RUPA will apply to all partnerships after January 1, 1999. RUPA governs the formation, operation, and liquidation of partnerships in California. However, the R&TC governs the taxation of partnerships doing business in California.

## **C Purpose**

Use Form 565 to report income, deductions, gains, losses, etc., from the operation of a partnership. Form 565 is an information return for calendar year 2000 or fiscal years beginning in 2000.

## **D Definitions**

#### **Limited Partnership**

A partnership formed by two or more persons under the laws of this state and having one or more general partners and one or more limited partners. Limited partnerships are required to register with the California Secretary of State (SOS).

A limited partnership that is filing ONLY to report California source income and is NOT:

- Doing business in California;
- Registered with the SOS; or
- Organized in California;

is NOT subject to the annual tax.

#### **Limited Liability Partnership (LLP)**

California law authorizes the formation of LLPs with activities limited to either the practice of public accountancy, law, architecture, and related services. California also recognizes out-of-state LLPs doing business in California.

An LLP is a partnership, other than a limited partnership, that has a Certificate of Registration on file with the SOS as described in Corporation Code Section 15049.

#### **Real Estate Mortgage Investment Conduit (REMIC)**

A special tax vehicle for entities that issue multiple classes of investor interests backed by a fixed pool of mortgages.

For additional information get the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, and federal Pub. 938, Real Estate Investment Conduits (REMICs) Reporting Information, and Other Collateralized Debt Obligations (CDO).

#### **Additional Definitions**

For definitions of a partnership, general partner, limited partner, nonrecourse loans, apportionment, unitary, etc., see the Partner's Instructions for the Schedule K-1 (565) and the instructions for federal Form 1065, U.S. Partnership Return of Income.

## **E Who Must File**

Every partnership (including REMICs treated as partnerships) that engages in a trade or business or has income from a California source must file Form 565. Regardless of where the trade or business of the partnership is conducted, a partnership is considered to be doing business in California if any of its partners (general or limited) or other agents are conducting business in California on behalf of the partnership. In such cases, the partnership is required to file Form 565.

An electing large partnership that completes federal Form 1065-B, U.S. Return of Income for Electing Large Partnerships, must still use Form 565. California does not conform to the electing large partnership provisions.

Limited partnerships and LLPs (both foreign and domestic) doing business in California or that have a certificate on file or are registered with the SOS (whether or not doing business in California) must file a return and pay the annual tax of \$800.

For information about organizing and registering an LLP in California, contact:

LIMITED LIABILITY PARTNERSHIPS  
CALIFORNIA SECRETARY OF STATE  
PO BOX 944228  
SACRAMENTO CA 94244-2280  
Telephone: (916) 653-3795

or visit the SOS on its Website at: [www.ss.ca.gov](http://www.ss.ca.gov)

If a limited partnership is registered in California, but is:

- Not doing business in California; and
- Does not have California source income;

the limited partnership is still required to file. However, if the limited partnership meets both of the above provisions, then it may be eligible for the reduced filing program. The limited partnership's filing requirement will be satisfied by:

1. Completing Form 565 with all supplemental schedules;
2. Completing and attaching California Schedules K-1 (565) for partners with California addresses;
3. Writing "SB 1106 Filing" in red at the top of Form 565, Side 1; and
4. Entering the total number of members in Question J, Side 2, of Form 565.

Religious and apostolic organizations that are exempt from income tax under R&TC Section 23701k are not required to file Form 565. However, Form 565 should be prepared and attached to Form 199, California Exempt Organization Annual Information Return.

Every LLC classified as a partnership for California tax purposes that is:

- Doing business in California;
- Organized in California; or
- Organized in another state or foreign country, but registered with the SOS;

must file Form 568. However, a nonregistered foreign LLC that is filing a California return to only report income derived from California sources, or to make an election on behalf of a California resident is to file Form 565.

Certain publicly traded partnerships (PTP) treated as corporations under IRC Section 7704 must file Form 100, California Corporation Franchise or Income Tax Return.

A qualifying syndicate, pool, joint venture, or similar organization may elect under IRC Section 761(a) (which California follows) not to be treated as a partnership for state income tax purposes and will not be required to file Form 565 except for the year of election. If Form 565 is filed, a copy of the operating agreement and all amendments must be attached to the return, unless a copy has been previously filed with the FTB.

Partnerships, except limited partnerships and LLPs, that do not do business in California and that do not receive income from California sources are not required to file Form 565. However, resident partners of a nonresident partnership may be required to furnish a copy of federal Form 1065.

## F When and Where to File

A partnership must file Form 565 and pay the annual tax (if required) by the 15th day of the 4th month (fiscal year) or April 16, 2001, (calendar year), following the close of its taxable year.

Mail Form 565 **with** payment (limited partnerships, LLPs, and REMICs only) to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0601

Make the check or money order payable to the "Franchise Tax Board." Write the partnership's federal employer identification number (FEIN), SOS file number, and "2000 Form 565" on the check or money order.

Mail Form 565 **without** payment to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0600

### Extensions

California does not require the filing of written extensions. If a partnership cannot file Form 565 by the return's due date, the partnership is granted an automatic six month extension.

However, the automatic extension does not extend the time to pay the \$800 annual tax.

If the partnership is filing the return under extension, see form FTB 3538, Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs. Form FTB 3538 and the tax payment should be sent to FTB by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 16, 2001 (calendar year).

### Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See the instructions for federal Form 1065 for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD  
SACRAMENTO CA 95827

**Caution:** Private delivery services cannot deliver items to PO boxes. If you will be using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

## G Annual Tax

An annual tax of \$800 applies to:

- Limited partnerships (both foreign and domestic) that do business in California;
- Limited partnerships that have a certificate on file with the SOS;
- LLPs that do business in California;
- LLPs registered with the SOS; and
- REMICs that are partnerships and do business in California at any time during the year.

This tax cannot be deducted as an expense by the partnership nor can it be deducted from the partner's distributive share.

## H Penalties and Interest

### Failure to File a Timely Return or Provide Information

A penalty is assessed against the partnership if it is required to file a partnership return and it:

- Fails to file the return on time, including extensions; or
- Files a return (including Schedules K-1 (565)) that fails to show all the information required.

The amount of the penalty for each month, or part of a month (for a maximum of five months) that the failure continues, is \$10 multiplied by the total number of partners in the partnership during any part of the taxable year for which the return is due. Interest will be charged on the penalty from the date the notice of tax due is sent by FTB to the date the return is filed.

"Small partnerships," as defined in IRC Section 6231, the federal exception to the imposition of penalties for failure to file partnership returns, does not apply for California purposes. Get FTB Notice CR-88-692 for more information and see R&TC Section 19172.

### Failure to Pay Total Tax by Due Date

For limited partnerships, LLPs, and REMICs that must pay the annual \$800 tax with Form 565, a penalty for late payment of tax may be assessed. Any limited partnership, LLP, or REMIC that fails to pay the \$800 tax by the original due date is assessed a penalty of 5% of the unpaid tax, plus 0.5% for each month or part of a month (not to exceed 40 months) the tax remains unpaid. This penalty cannot exceed 25% of the unpaid tax. Interest will be due and payable on the late payment.

### Interest

Interest is due and payable on any tax due if not paid by the original due date of Form 565. Interest is also due on some penalties. The automatic extension of time to file Form 565 does not stop interest from accruing. California follows federal rules for the calculation of interest. Get FTB Pub. 1138, Refund/Billing Information, for more information.

**Returned checks:** A penalty may also be charged for a check returned for insufficient funds.

## I Accounting Methods

Compute ordinary income or loss by the accounting method regularly used to maintain the partnership's books and records. This method must clearly reflect the partnership's income or loss.

Partnerships given permission to change their accounting method for federal purposes should see IRC Section 481 for information relating to the adjustments required by changes in accounting method.

Generally, a partnership may not use the cash method of accounting if the partnership has a corporate member, average annual gross receipts of more than \$5 million, or if a tax shelter. For exceptions, see IRC Section 448.

The mark-to-market accounting method is required for securities dealers. The IRC Section 481 adjustment is taken into account ratably over five years beginning with the first income year.

### **Rounding to Whole-Dollar Amounts**

Whole dollar amounts should be shown on the return and accompanying schedules. To round, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next dollar.

## **J Accounting Periods**

Partnership returns normally must be filed for an accounting period that includes 12 full months. A short period return must be filed if the partnership is created or terminated within the taxable year. In that case, please write "Short Period" in red ink at the top of Form 565, Side 1.

For information on the required taxable year of a partnership, see the instructions for federal Form 1065.

## **K Amended Return**

If, after the partnership files its return, it becomes aware of changes it must make to income, deductions, credits, etc., the partnership should file an amended Form 565 and an amended paper or on magnetic media Schedule K-1 (565) for each affected partner, if applicable. Check the "Amended Return" box on Form 565, Side 1, Item I(3) and on Schedule K-1 (565), Side 1, Item H(2). Give a corrected Schedule K-1 (565) labeled "Amended" to each affected partner. If the partnership originally filed a group nonresident partner Form 540NR, the partnership should file an amended Form 540NR.

If the partnership's federal return is changed for any reason, the federal change may affect the partnership's California return. This would include changes made as a result of an examination of the partnership's return by the IRS. The partnership must file an amended return within six months of the final federal adjustments. The partnership should attach a copy of the federal Revenue Agent's Report or other notice of the federal adjustments to the return. The partnership should inform the partners that they may also be required to file amended returns based on any changes made by the IRS within six months from the date of the final federal adjustments.

## **L Required Information Returns**

Every partnership must file information returns if, in the course of its trade or business, it:

- Makes payments of rents, salaries, wages, annuities, or other fixed or determinable income during one taxable year totaling \$600 or more to one person;
- Pays to an individual or one payee interest and dividends totaling \$10 or more; or
- Receives cash payments over \$10,000.

Payments of any amount by a broker, dealer, or barter exchange agent must also be reported.

Partnerships must report payments made to California residents by providing copies of federal Form 1099. Get FTB Pub. 4227A, A Guide to Information Returns Filed With California, for more information.

For nonresidents, see the reporting and withholding requirements on Form 592, Nonresident Withholding Annual Return; Form 592-A, Nonresident Withholding Remittance Statement; and Form 592-B, Nonresident Withholding Tax Statement.

Partnerships must submit a copy of federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

Partnerships must report interest paid on municipal bonds that are issued by a state other than California or a municipality other than a California municipality and that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest payments aggregating \$10 or more paid after January 1, 2000. Information returns will be due June 1, 2001. Get form FTB 4800, Federally Tax-Exempt Non-California Bond Interest and Interest-Dividend Payment, for more information.

Partnerships must use form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report interest due or to be refunded under the look-back method on long-term contracts.

Any information returns required for federal purposes under IRC Section 6038, IRC Section 6038A, and IRC Section 6038B are also required for California purposes. Attach the information returns to Form 565 when filed. If the information returns are not provided, penalties may be imposed.

Mail all information returns, unless otherwise noted, separately from Form 565. Information returns should be mailed to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0500

## **M Special Items**

California law generally follows federal law in the areas of:

- IRC Section 702(a) items;
- Elections;
- Distributions of unrealized receivables and inventory items;
- Partners' dealings with the partnership;
- Contributions to the partnership;
- Income of foreign nonresident partners subject to withholding-at-source, Forms 592, 592-A, and 592-B;
- Basis and at-risk rules;
- Passive activity limitations;
- Net operating loss deductions by a partner (a partnership is not allowed the deduction);
- Publicly traded partnerships (PTP);
- Long-term contracts;
- Installment sales;
- Vacation pay;
- Amortization of past service costs;
- Distributions of contributed property by a partnership; and
- Recognition of precontribution gain in certain partnership distributions to contributing partners.

See the instructions for federal Form 1065 for specific information about these provisions.

## **N Signatures**

### **General Partner**

Form 565 is not a valid return unless it is signed by a general partner. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

### **Paid Preparer's Information**

Generally, anyone who is paid to prepare the partnership return must sign the return and complete the "Paid Preparer's Use Only" area of the return.

The paid preparer must:

- Complete the required preparer information;
- Sign in the space provided for the preparer's signature (signature stamps or labels are not acceptable); and
- Give the partnership a copy of the return in addition to the copy to be filed with the FTB.

A person who prepares the return and does not charge the partnership should not sign the partnership return.

## O Group Returns

Nonresident partners of a partnership doing business or deriving income from sources within California may elect under R&TC Section 18535 to file a group nonresident return. Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

## P Investment Partnerships

Income of nonresident partners, including banks or corporations, derived from "*qualifying investment securities*" of an "*investment partnership*" is considered income from sources other than California, except as noted below. Therefore, nonresident partners generally will not be taxed on this income. The partnership should inform its nonresident partners if all or a portion of their distributive share of income is from "*qualifying investment securities*" of an "*investment partnership*" and whether it is sourced to California. See Specific Instructions, Question V, for definitions of qualifying investment securities and investment partnership.

Income from a partnership that is an investment partnership is generally considered business income (see Appeal of Estate of Marion Markus, Cal. St. Bd. of Equal., May 6, 1986). Investment partnerships that are doing business within and outside California should apportion California source income using Schedule R, Apportionment and Allocation of Income.

Investment partnerships doing business solely within California should treat all business income of the investment partnership as California source income.

Investment partnerships that have California source income should fill out column (e) of the Schedule K-1 (565) showing each partner's distributive share of California source income.

Generally, partners who are nonresident individuals would not record this income as California source income. However, there are two exceptions to the general rule when a nonresident individual may have California source income from an investment partnership. Nonresident individual partners will be taxed on their distributive shares of income from the investment partnership if the income from the qualifying investment securities is interrelated with:

- Any other business activity of the nonresident partner; or
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

Nonresident individual partners will also be taxed on their distributive share of investment income from an investment partnership if the qualifying securities were purchased with working capital of a trade or business the nonresident owns an interest in, and that is conducted in California (R&TC Section 17955).

Corporations that are partners in an investment partnership are generally not taxed on their distributive share of partnership's income, provided that the income from the partnership is the corporation's only California source income. However, if the corporation:

- Participates in the management of the investment activities of the investment partnership; or

- Has income derived from or attributable to sources within California other than income from the investment partnership; then the corporation will be taxable on its distributive share of California source income of the partnership.

## Q Cancelling a Limited Partnership or Limited Liability Partnership

Limited partnerships and limited liability partnerships are required to pay the \$800 annual tax and file Form 565 until the appropriate cancellation papers are filed with the California Secretary of State (SOS).

### Limited Partnerships

In order to terminate a limited partnership, the following steps must be taken:

1. File Form LP-4/7, Certificate of Cancellation, with the SOS. The SOS also requires a domestic limited partnership to file Form LP-3, Certificate of Dissolution. Please contact the SOS for more details;
2. Pay the \$800 annual tax to FTB; and
3. File a final California return (Form 565) with FTB.

### Limited Liability Partnerships

To cancel a limited liability partnership, the following steps must be taken:

1. File Form LLP-4, Notice of Change of Status, with the SOS. Please contact the SOS for more details;
2. Pay the \$800 annual tax to FTB;
3. File a final California return (Form 565) with FTB; and
4. File form FTB 3555L, Request for Tax Clearance Certificate-Limited Liability Company or Limited Liability Partnership, with FTB.

### Additional Information

For additional information on this subject, get FTB Pub. 1151, Terminating a Business Entity, or contact the SOS at:

LIMITED PARTNERSHIPS  
CALIFORNIA SECRETARY OF STATE  
PO BOX 944225  
SACRAMENTO CA 94244-2250  
Telephone: (916) 653-3365

or  
LIMITED LIABILITY PARTNERSHIPS  
CALIFORNIA SECRETARY OF STATE  
PO BOX 944228  
SACRAMENTO CA 94244-2280  
Telephone: (916) 653-3795

Or at the SOS's website: [www.ss.ca.gov](http://www.ss.ca.gov)

## R Withholding Requirements

### Foreign Nonresident Partners

As described in IRC Section 1446 and modified by R&TC Section 18666, if a partnership has any income or gain from a trade or business within California, and if any portion of that income or gain is allocable under IRC Section 704 to a foreign partner, the partnership is required to withhold tax on the allocable amount.

### State and federal differences

California generally conforms to IRC Section 1446 and corresponding federal rulings and procedures. The main differences between California and federal laws in this area are:

- a. The California withholding rate is 8.84% for C corporations and 9.3% for individuals, partnerships, and fiduciaries.

- b. Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18662.

### Domestic Nonresident Partners

A partnership is required to withhold funds for income or franchise taxes when it makes a distribution of income to a domestic nonresident partner (R&TC Section 18662). This includes prior year income that should have been, but was not, previously reported as income from California sources on the partner's California income tax return. However, withholding is not required if distributions of income from California sources to the partner are \$1,500 or less during the calendar year or if FTB directs the payer not to withhold.

Domestic nonresident partners include individuals who are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic nonresident partners also include nonresident estates and trusts, LLCs, and partnerships who do not have a permanent place of business in California. Foreign nonresident partners covered under R&TC Section 18666 are not domestic nonresident partners.

Partnerships with income from within and outside California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable in determining the California part of the distribution subject to the withholding. Partnerships are required to withhold at a rate of 7% of distributions (including property) of income from California sources made to domestic nonresident partners.

FTB has administrative authority to allow reduced withholding rates, including waivers, when requested in writing. These authorizations may be one-time, annual, or for a longer period. Waivers or reduced withholding rates will normally be approved when distributions are made by publicly traded partnerships and on distributions to brokerage firms, tax-exempt organizations, and tiered partnerships.

No withholding is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon examination the FTB determines that withholding was required, the partnership may be liable for the withholding and penalties.

Send waiver requests and inquiries to:

NONRESIDENT WITHHOLDING SECTION  
FRANCHISE TAX BOARD  
PO BOX 651  
SACRAMENTO CA 95812-0651

Telephone: (888) 792-4900 (U.S. toll-free) or  
(916) 845-4900

The withholding should be reported on and sent with Form 592, Form 592-A, and/or Form 592-B. For more information, get FTB Pub. 1017, Nonresident Withholding — Partnership Guidelines.

The taxable income of nonresident partners is the distributive share of California sourced partnership income, not the distributed amount.

## S Check the Box Regulations

California generally conforms to the federal entity classification regulations (commonly known as “check-the-box” regulations). These regulations allow certain unincorporated entities to choose tax treatment as a partnership, a corporation, or an entity disregarded as separate from its owner (SB 1234, Stats. 1997, Ch. 608).

An “*eligible entity*” may choose its classification. An eligible entity is defined as a business entity that is not a trust, a corporation organized under a federal or state statute, a foreign entity specifically listed as a per se corporation or other special business entities. Other special business entities under the IRC include PTP, REMIC, financial asset securitization investment trusts (FASITs), or regulated investment companies (RICs). An eligible entity with two or more owners will be a partnership (for tax purposes) unless it elects to be taxed as a corporation. An eligible entity with a single owner will be disregarded for tax purposes, unless the entity elects to be taxed as a corporation. If the separate existence of an entity is disregarded, its activities are treated as activities of the owner and are reported on the proper California return.

Generally, any elections made for federal purposes under the federal “*check-the-box*” regulations are considered California elections. No separate elections are allowed. If federal Form 8832, Entity Classification Election, is filed with the federal return, a copy should be attached to the electing entity's California return for the year in which the election is effective.

**IMPORTANT:** There is an exception to the general rule. The exception exists in the case of an eligible business entity, other than one which, within the 60 month period preceding January 1, 1997:

- Was not doing business in California;
- Did not derive income from sources within California; or
- Had no partners who were residents of California;

and that was properly classified as an association taxable as a corporation (R&TC Section 23038(b)(1)(c)).

These entities are generally: 1) business trusts that were classified as corporations under California law, but were classified as partnerships for federal tax purposes for taxable years beginning before January 1, 1997; and 2) previously existing foreign single member limited liability companies (SMLLC) that were classified as corporations under California law but claimed to be partnerships for federal tax purposes for taxable years beginning before January 1, 1997.

These business trusts and previously existing foreign SMLLC will continue to be classified as corporations for California tax purposes and must continue to file Form 100, unless they make an irrevocable election to be classified or disregarded the same as they are for federal tax purposes. See form FTB 3574, Special Election for Business Trusts and Certain Foreign Single Member LLCs, and Title 18, Cal. Code of Reg. Sections 23038(a)-(b).

## T Substitute Schedules

Partnerships or their tax professional must get approval from the FTB to use a substitute Schedule K-1(565), if the partnership:

- Wants to use **paperless** Schedules K-1(565);
- Does not use the official California Schedule K-1(565) prepared by the Franchise Tax Board (FTB); or
- Does not use a software program with an FTB approved Schedule K-1(565).

If you use computer software, please read the company's user manual to make sure you have the necessary hardware and printer fonts to produce FTB-approved forms. All printing should be done to the standards specified in FTB pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms.

Partnerships are subject to penalties for failure to file the appropriate Schedule K-1(565). See General Information H, Penalties and Interest.



To participate in the FTB's substitute forms program, get FTB Pub. 1098, and form FTB 1096, Agreement to Comply with FTB Pub. 1098. Both are available in the Miscellaneous portion of our Forms and Publications page on our website at: [www.ftb.ca.gov](http://www.ftb.ca.gov) Form FTB 1096 is also available as a fillable form on our website.

### Paperless Schedule K-1(565)

To help you accomplish paperless Schedule K-1(565) filing, the FTB has prepared FTB 1062, Guide for Schedule K-1 (565) Filing by CD, Diskette, or Magnetic Media, and K-1 TestWare.

For the procedures, formatting specifications, and record layouts needed to program for paperless Schedule K-1(565) get FTB 1062. FTB Pub. 1062 also includes form FTB 3604, California Transmittal of Partnership K-1 Information on Magnetic Media, the form the partnership needs to transmit paperless Schedules K-1(565) to FTB.

K-1 TestWare is also available at no charge. K-1 Testware will help identify and correct errors during programming and before submitting the paperless Schedules K-1(565) to FTB. K-1 TestWare includes two programs:

- K-1 Verify, which edits the Schedule K-1(565) records to ensure the fields are the correct length and position FTB requires, and produces an edit report; and
- K-1 Convert, which converts spreadsheet formats to standard fixed length formats so you can use them with K-1 Verify.

Once verification is made sure the partnership's paperless Schedules K-1(565) pass the K-1 Verify program, can send the schedules to the FTB using form FTB 3604, which contains mailing instructions. Multiple partnerships can be put on the same magnetic media. It is not necessary to provide a separate CD or diskette for each partnership. However, do include each partnership name, FEIN, and number of K-1s for that partnership in the space provided on form FTB 3604.

If the partnership files paperless Schedules K-1(565), please file all Schedules K-1(565) for that partnership using the paperless format. Do not file paper Schedules K-1(565) with your Form 565 if the partnership has already filed or will file paperless Schedules K-1(565). Do not file federal Schedules K-1 (1065) with the Form 565.

**Note:** Do not file Schedules K-1(565) on microfiche.

To get all the publications and the K-1 TestWare mentioned above, visit the Electronic Services page on our Website at:  
[www.ftb.ca.gov](http://www.ftb.ca.gov).

Assistance is available, contact our e-file Help Desk at (916) 845-0353.

## Specific Instructions

### Form 565

#### Fill In All Applicable Lines and Schedules

Enter the total amounts on the applicable lines of Schedule K (565), Partners' Share of Income, Deductions, Credits, Etc. Do not enter these items directly on Form 565, Side 1, Schedule A, or Schedule D. **Do not** apply the apportionment factor to the items on Schedule K (565). Enter any items specially allocated to the partners on the applicable line of the partner's Schedule K-1 (565).

**Reminder:** Whole numbers should be shown on the return and accompanying schedules.

#### Name, Address, FEIN, and SOS File Number

The partnership may use its legal or trade name on all tax returns and other documents filed. Use the label from the booklet that was mailed to the partnership unless the label is incorrect. If the label

information is incorrect or if the partnership does not have a label, print the partnership's legal or trade name, address, FEIN, and SOS file number.

If the partnership leases a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

**Note:** Limited partnerships and LLPs need to enter the SOS file number. General partnerships that have registered under RUPA should enter the prefix "GP" and the 12-digit file number.

#### Item C – Principal Business Code

California uses the 6-digit federal Principal Business Activity (PBA) Code based on the North American Industry Classification System (NAICS). Please see the PBA Code chart.

Common trust funds are required to use the PBA code 525920. Investment clubs are required to use PBA code 523910. For further information, see the instructions for federal Form 1065.

#### Item F – Total Assets at End of Taxable Year

See the instructions for Question O before completing this item.

If the partnership is required to complete this item, enter the total assets at the end of the partnership's taxable year. This is determined by the accounting method regularly used to maintain the partnership's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

## Income

### Line 1 through Line 8

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity income on line 1 through line 8. However, for California tax purposes, business income of the partnership is computed using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be business income for California sourcing purposes. Do not include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Attach a copy of federal Form 8825 to Form 565. Use California numbers and attach a statement reconciling any differences between federal and California amounts.

**Note:** Use worldwide amounts determined under California law when completing these lines.

#### Line 5 – Net Farm Profit (Loss)

Enter the partnership's net profit (loss) from federal Schedule F (Form 1040), Profit or Loss From Farming. Attach federal Schedule F to Form 565. If the amount includable for California purposes is different from the amount on federal Schedule F, enter the California amount and attach a note explaining the difference.

#### Line 6 – Net Gain (Loss) from Schedule D-1

Include only ordinary gains (losses) from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains (losses) from the sale, exchange, or involuntary conversion of rental activity assets must be reported separately on Schedule K (565) and Schedule K-1 (565).

A partnership that is a partner in another partnership must include on Schedule D-1, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges, or involuntary conversions

(other than casualties or thefts) of the other partnership's trade or business assets.

## Deductions

### Line 9 through Line 21

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065 and only include trade or business activity deductions on line 9 through line 20. Do not include any rental activity expenses or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565).

**Note:** Use worldwide amounts determined under California law when completing these lines.

Federal reporting requirements for organization expenses, syndication expenses, and uniform capitalization rules apply for California.

### Line 16a – Depreciation and Amortization

Enter on line 16a the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885P, Depreciation and Amortization (included in this booklet), to figure depreciation and amortization. Transfer the total from form FTB 3885P, line 6, to Form 565, Side 1, line 16a, or federal Form 8825 as appropriate (use California amounts). See the instructions for form FTB 3885P for more information.

Do not include any expense deduction for recovery property (IRC Section 179; Enterprise Zones, R&TC Section 17267.2; Targeted Tax Area, R&TC Section 17267.6 and Local Agency Military Base Recovery Area, R&TC Section 17268) on this line. This expense is not deducted by the partnership. Instead, it is passed through separately to the partners and is reported on line 9 of Schedule K (565) and Schedule K-1 (565).

### Line 23 – Tax

Enter the annual \$800 tax required for limited partnerships, LLPs, and REMICs. See General Information G, Annual Tax, for further details on the annual tax requirements.

### Line 24 – 2000 Nonresident Withholding Credit

The amount claimed by the partnership cannot exceed the tax due (\$800 for limited partnerships, LLPs, and REMICS). Any nonresident withholding credit greater than the partnership tax must be allocated to all partners according to their partnership interests. See the instructions for Schedule K (565) and Schedule K-1 (565), Line 13a(1). Attach Form 592-B to the front of the partnership return to document the credit claimed. If the amount withheld is greater than the partnership tax, see FTB Publication 1017, Nonresident Withholding — Partnership Guidelines, for information on required procedures for allocation of the credit to partners.

## Schedule A — Cost of Goods Sold

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, Schedule A.

## Questions

### Question J

Check only one box for this question. The partnership only checks the box that best describes its business type. For definitions of general partnership, limited partnership, REMIC, and LLP, see General Information D, Definitions, and the instructions for federal Form 1065.

The term “*doing business*” means actively engaging in any transaction for the purpose of financial gain or profit (R&TC Section 23101).

**Line Item 6** of Question J is for other types of entities not previously mentioned on line 1 through line 5. If your entity is not a general partnership, limited partnership, REMIC, or LLP, then check the box for line Item 6 only. In the space provided, write in the type of entity.

### Question K

Enter the maximum number of partners in the partnership during the taxable year. The number of Schedules K-1 (565) sent via magnetic media or attached to Form 565, must equal the number of partners entered in Question K. **Do not** use abbreviations or terms such as “**Various**.”

### Question O

If the answers to Question 5a through Question 5c on federal Form 1065, Schedule B are all “Yes,” answer “Yes” to Question O on Form 565.

If Question O is answered “Yes,” the partnership is not required to complete Schedules L, M-1, M-2, or Item F, on Side 1 of Form 565 or Item J on Schedule K-1 (565).

### Question T

Answer “Yes” to Question T if:

Under R&TC Section 64(c):

- The percentage of interests including interest in both the capital and profits of this partnership or in any of its subsidiary(ies) owned by **one** person or **one** entity cumulatively surpassed 50% during this year;
- The total partnership interests, including capital and profits interests, transferred to **one** irrevocable trust cumulatively surpassed 50% during this year;
- One or more partners transferred the control of, or the interests in, more than 50% of the total interests in the partnership capital and profits to **one** person or **one** entity during this year;
- This partnership's cumulative ownership or control of the capital and profits interests, voting stock, or other ownership interests in any other legal entity surpassed 50% this year; or

Under R&TC Section 64(d):

- Cumulatively more than 50% of the total interests including capital and profits interests, in this partnership have been transferred this year in one or more transactions that have occurred since March 1, 1975.

If the answer is “Yes,” a BOE-100-B, Statement of Change in Control and Ownership of Legal Entities, must be filed with the State Board of Equalization, or substantial penalties may result. Forms and information may be obtained from the State Board of Equalization at (916) 323-5685.

### Question U

California requires taxes to be withheld from certain payments or allocations of income and sent to the FTB (R&TC Section 18662 and Section 18666). If upon examination, the FTB determines that tax withholding was required, the partnership may be liable for the tax and penalties.

The reference to Form 592, Form 592-A, and Form 592-B relates to withholding done by the partnership. If you need additional information concerning partnership withholding, please see General Information L, Required Information Returns, and R, Withholding Requirements.

## Question V – Investment Partnership.

An “*investment partnership*” is a partnership that meets the following two criteria:

1. No less than 90% of the cost of the partnership’s total assets consist of:
  - Qualifying investment securities;
  - Deposits at banks or other financial institutions; and
  - Office equipment and office space reasonably necessary to carry on the activities of an investment partnership.
2. No less than 90% of the partnership’s gross income is from interest, dividends, and gains from the sale or exchange of qualifying investment securities defined in R&TC Section 17955 and Section 23040.1.

Qualifying investment securities include:

- Common and preferred stock, as well as debt securities convertible into common stock;
- Bonds, debentures, and other debt securities;
- Foreign and domestic currency deposits or equivalent and securities convertible into foreign securities;
- Mortgage-backed or asset-backed securities secured by governmental agencies;
- Repurchase agreements and loan participations;
- Foreign currency exchange contracts and forward and futures contracts on foreign currencies;
- Stock and bond index securities and futures contracts, and other similar securities;
- Regulated futures contracts; and
- Options to purchase or sell any of the preceding qualified investment securities, except regulated futures contracts.

Qualifying investment securities do not include an interest in a partnership, unless the partnership qualifies as an investment partnership. See R&TC Section 17955 and Section 23040.1. Also, see General Information Q, Cancelling a Limited Partnership or Limited Liability Partnership.

## Question X

Federal Form 8271, Investor Reporting of Tax Shelter Registration Number, is required to be attached to any return on which a deduction, loss, credit, or any other tax benefit is claimed or is reported, or any income the partnership’s reported from an interest in a registration-required tax shelter. If the partnership is required to file this form with the federal return, attach a copy to the partnership’s Form 565. **Do not** attach copies of federal Schedules K-1 (1065).

## Schedule L — Balance Sheets

California’s reporting requirements are the same as the federal reporting requirements. The amounts reported on the balance sheet should agree with the books and records of the partnership and should include all amounts whether or not subject to taxation. Attach a statement explaining any differences between federal and state amounts or any differences between the balance sheet and the partnership’s books and records. Follow the instructions for federal Form 1065, Schedule L.

**Note:** Domestic partnerships with 10 or fewer partners may not have to complete Schedule L. See the instructions for Question O for the specific requirements to qualify for this exception.

## Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, Schedule M-2, Analysis of Partner’s Capital Accounts

Domestic partnerships with 10 or fewer partners may not have to complete Schedule M-1, Schedule M-2, or Item J (Schedule K-1 (565)). See the instructions for Question O for the specific requirements to qualify for this exception.

If the partnership is required to complete Schedule M-1 and Schedule M-2, the amounts shown should agree with the partnership’s books and records and the balance sheet amounts. Attach a statement explaining any differences.

**Note:** Use worldwide amounts determined under California law when completing Schedule M-1. Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item J, column (c), of all the partners’ Schedules K-1 (565).

## Schedule K (565) and Schedule K-1 (565) — Partner’s Shares of Income, Deductions, Credits, Etc.

### Purpose of Schedules

Schedule K (565) is a summary schedule for the partnership’s income, deductions, credits, etc. and the Schedule K-1 (565) shows each partner’s distributive share. The line items for both of these schedules are the same unless otherwise noted.

One copy of each Schedule K-1 (565) must be sent via magnetic media or attached to Form 565 when it is filed with the FTB. For alternative methods of filing these Schedule K-1 (565), please see the General Information T, Substitute Schedules.

Be sure to give each partner a copy of their respective Schedule K-1s (565). Also include a copy of the Partner’s Instructions for Schedule K-1 (565) or specific instructions for each item reported on the partner’s Schedule K-1 (565). These items should be provided to the partner on or before the due date of the Form 565.

### Schedule K (565) Only

In column (b), enter the amounts from federal Schedule K. In column (c), enter the adjustments resulting from differences between California and federal law (not adjustments relating to California source income). In column (d) on Schedule K (565), enter the worldwide income computed under California law. For partners to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss), and portfolio income must be considered separately by the partners. Rental activity income (loss) and portfolio income are not reported on Form 565, Side 1 so that these amounts are not combined with trade or business activity income (loss). Schedule K (565) is used to report the totals of these (and other) amounts.

**Note (for apportioning partnerships only):** Once the Schedule K (565) has been completed, apportioning partnerships should also complete Schedule R before completing its partners’ Schedules K-1 (565).

### Compliance with Partnership Filing Requirements

To help ensure the accurate and timely processing of your Form 565, please verify the following:

- A California approved Schedule K-1 (565) has been sent via magnetic media or attached (to Form 565) for each partner identified on Form 565, Side 2, Question K. Partnerships eligible for the reduced filing program, see General Information E, Who Must File.

- The Schedule K-1 (565) contains the partner's correct name, address, and identifying number in the correct fields.
- Questions A through I are completed on Side 1 of Schedule K-1 (565).
- The appropriate entity type box (Schedule K-1 (565), Side 1, Question B) is checked for each partner.
- All Schedules K-1 (565) reconcile to Form 565, Schedule K (565).
- The partner's percentage (Schedule K-1 (565) Question D) is expressed in decimal form and carried to four decimal places (i.e., 33.5432). Do not print fractions, print the percentage symbol (%), or use terms such as "Various."
- Substitute computer-generated Schedule K-1 (565) forms **must** be approved by the FTB.

**Note:** For the highest rate of accuracy and rapid processing, file Schedules K-1 (565) on magnetic media. See General Information T, Substitute Schedules, for more details.

### Schedule K-1 (565)

The partnership completes the entire Schedule K-1 (565) filling out the partner's and partnership's information (name, address, identifying numbers), Questions A through J, and the partner's distributive share of items.

**Note:** For partners with PMB addresses, include the designation number in the partner's information area. Precede the number (or letter) with the "PMB."

If a husband and wife each held a separate interest in the partnership, prepare separate Schedules K-1 (565) for each spouse. If a husband and wife held an interest together, prepare a single Schedule K-1 (565) since they are considered to be one partner.

For each individual partner, enter the partner's social security number. For all other partners enter the FEIN. However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.

The partnership files one California Schedule K-1 (565) for each partner either by magnetic media or by attaching a copy to the partnership return. Do not attach Federal Schedules K-1 (1065). These forms are not California approved forms.

A copy of the California Schedule K-1 (565) should also be given to the appropriate partner. The partners should also be provided a copy of either the Partner's Instructions for Schedule K-1 (565) or specific instructions for each reported item.

### Determining the Source of the Partnership's Income for a Resident Partner

A resident partner should include the entire distributive share of partnership income in their California income. If the partnership is apportioning, the partner may be entitled to a credit for taxes paid to other states. The partner should be referred to Schedule S, Other State Tax Credit, for more information.

### Determining the Source of the Partnership's Income for a Nonresident Partner

**Business income:** Regardless of the classification of income for federal purposes, the partnership's income from California sources is determined in accordance with California law (Title 18, Cal. Code Reg. Section 17951-4). If the partnership conducts:

- A trade or business wholly within California, the income from that trade or business is California source income;
- A business within and outside California, but the part within California is so separate and distinct that it can be separately accounted for, then only that separate income within California is California source income; or

- A single trade or business within and outside California; then California source business income of that trade or business is determined by apportionment. The partnership should apportion business income using the Uniform Division of Income for Tax Purposes Act (R&TC Section 25120 through Section 25139). Special rules apply if the partnership has income that is not attributable to the trade or business of the partnership (nonbusiness income).

**Nonbusiness Income:** Nonbusiness income attributable to real or tangible personal property (such as rents, royalties, gains, or losses) located in California is California source income (see Title 18, Cal. Code Reg. Section 17951-3 and R&TC Section 25124 and Section 25125). Enter this information on the appropriate line of Schedule K-1 (565). If the partnership believes it may have a unitary partner, the information should also be entered on Side 2, Table 2, Part B, for that partner.

The source of nonbusiness income attributable to intangible property depends upon the partner's state of residence or commercial domicile. Individuals generally source this income to their state of residence and corporations to their commercial domicile.

**Note:** Because the determination of the source of intangible nonbusiness income must be made at the partner level, this income is not entered on Schedule K-1 (565), column (e). It is entered only on Side 2, Table 1.

### Completing Schedule K-1 (565)

- In **column (b)**, enter the amounts from federal Schedule K-1 (1065).
- In **column (c)**, enter the adjustments resulting from differences between California and federal law for each specific line item.
- In **column (d)**, enter the result of combining column (b) and column (c). This is total income under California law.

**Column (e)** is used to report California source income and credits. Include the following items in this column:

1. Income from separate businesses, trades, or professions conducted wholly within California (see Title 18, Cal. Code Reg. Section 17951-4(a)).
2. Income from a trade or business conducted within and outside California, when the part of business conducted within California can be separately accounted for (see Title 18, Cal. Code Reg. Section 17951-4(b)).
3. Income from a trade or business conducted within and outside California that is apportioned to California. This includes intangible income attributable to the business, trade, or profession (Title 18, Cal. Code Reg. Section 17951-4(c) and R&TC Sections 25128 through 25137). Generally, the partnership should apportion business income using a 4-factor formula consisting of property, payroll, and a double-weighted sales factor. Use a 3-factor formula consisting of payroll, property, and a single-weighted sales factor if more than 50% of the business receipts of the partnership are from agricultural, extractive, savings and loans, banks, and financial activities. Apportioning partnerships should complete Schedule R and attach it to Form 565.
4. Nonbusiness income from real and tangible property located in California. Enter the partner's share of nonbusiness income from real and tangible property located in California in column (e). If the partnership believes it may have a unitary partner, enter this income in Table 2, Part B.
5. California credits.

**Note:** Nonbusiness income from intangible property should not be entered in column (e). Enter this income in Table 1. For more information, see Partner's Instructions for Schedule K-1 (565).

---

**Completing Column (d) and Column (e)**

Schedule K-1 (565), column (d), includes the partner's distributive share of total partnership income, deductions, gains, or losses under California law. Column (e) includes only income, deductions, gains, or losses that are apportioned or sourced to California. The computation of these amounts is a matter of law and regulation. The residency of the partner is not a factor in the computation of amounts to be included in column (d) and column (e).

For a partnership that is doing business only in California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends, gains, or losses from sales of securities).

For a partnership that is doing business within and outside California, the amounts in column (d) and column (e) may be different.

If the partnership knows the partner is a resident individual, then the partnership answers "No" to Schedule K-1 (565), Question I and completes column (d) only. Otherwise the partnership should complete column (e) for all other partners.

**Completing Table 1**

Complete Table 1 only if the partnership has nonbusiness intangible income. If the partnership has nonbusiness intangible income, but knows that the partner is a resident individual, then the partnership does not need to complete Table 1 for the partners.

**Completing Table 2**

The partnership does not need to complete Table 2 for a partner, if the partnership knows that the partner is not unitary with its trade or business or any other trade or business.

**Special Rules for Partners and Partnerships in a Single Unitary Business**

Special rules apply if the partnership and a partner are engaged in a single unitary business. In that case, a unitary partner will not use the income information shown in column (e). Instead, the partner's distributive share of business income is combined with the partner's own business income. The combined business income is apportioned using an apportionment formula that consists of an aggregate of the partner's share of the apportionment factors from the partnership and the partner's apportionment factors (see Title 18, Cal. Code Reg. Section 25127-1(f)). The determination of whether a 3- factor or 4-factor apportionment formula applies to the combined income will be made at the partner level. The partner's distributive share of business income and property, payroll, and sales factors are entered in Table 2.

If the partnership knows that all of the partners are unitary with the partnership, the partnership need not complete column (e) for any of the Schedule K-1s (565) or attach a Schedule R. For further information, see Partner's Instructions for Schedule K-1 (565).

**Special Reporting Requirements for Passive Activities**

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (565), the partnership must attach a statement to Schedule K-1 (565) for each activity that is a passive activity to the partner. Rental activities are passive activities to all partners; trade or business activities are passive activities to limited partners and to general partners who do not materially participate in the activity. The statement must include all the information explained in the instructions for federal Schedule K-1 (1065).

**Questions A and E (Schedule K-1 (565))**

See the federal instructions for Questions A and E on Schedule K-1 (1065).

**Question B (Schedule K-1 (565))**

Check the box for the partner's entity type. An exempt organization should check box 10 regardless of its legal form.

**Question D (Schedule K-1 (565))**

Percentages must be 4 to 7 characters in length and have a decimal point before the 4 final characters. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000. Do not enter fractions, the percentage symbol (%), or use terms such as "Various."

**Questions C and I (Schedule K-1 (565))**

Check the boxes at Questions C and I for the partner's California residency status.

**Specific Line Instructions**

The California Schedule K (565) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (565) refer to the instructions for federal Schedule K (1065).

**Income****Line 1 through Line 7**

See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Income (Loss), line 1 through line 7.

**Note:** Schedule K (565) must include all income and losses from the partnership activities as determined under California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K (565).

**Line 6 –** Enter on line 6, the amount shown on Schedule D-1, Sales of Business Property, line 7. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts. Instead, report them on line 7.

If the partnership has more than one activity and the amount on line 6 is a passive activity amount to the partner, attach a statement to Schedule K-1 (565) that identifies to which activity the IRC Section 1231 gain (loss) relates.

**Deductions****Line 8 – Charitable Contributions**

Enter the total amount of charitable contributions made by the partnership during its taxable year on Schedule K (565) and each partner's distributive share on Schedule K-1 (565). Attach an itemized list to both schedules showing the amount subject to the 50%, 30%, and 20% limitations.

Partners are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170.

**Note:** California conforms to IRC Section 170(f)(8) substantiation requirement for charitable contributions.

**Line 9 through Line 11**

See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Deductions, line 9 through line 11.

IRC Section 179 expense deductions are subject to different rules for California. See instructions for form FTB 3885P, Depreciation and Amortization.

---

## Investment Interest

### Line 12a through Line 12b(2)

These lines must be completed whether or not a partner is subject to the investment interest rules.

**Line 12a – Interest Expense on Investment Debts:** Enter the interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 12a of Schedule K (565) and Schedule K-1 (565) (rather than line 10 of Schedule K (565) and Schedule K-1 (565)).

Property held for investment includes a partner's interest in a trade or business activity that is not a passive activity to the partnership and in which the partner does not materially participate. An example would be a partner's working interest in an oil and gas property (i.e., the partner's interest is not limited) if the partner does not materially participate in the oil and gas activity. Investment interest does not include interest expense allocable to a passive activity. For more information, get form FTB 3526, Investment Interest Expense Deduction.

**Line 12b(1) and Line 12b(2) – Investment Interest Income and Expenses:** Enter on line 12b(1) only the investment income included on line 4a, line 4b, line 4c, and line 4e of Schedule K (565) and Schedule K-1 (565). Enter on line 12b(2) only investment expense included on line 10 of Schedule K (565) and Schedule K-1 (565).

If items of investment income or expense are included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (565) (items other than the amounts included on line 4 and line 10 of Schedule K-1 (565)), give each partner a statement identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment, and other amounts that are gross portfolio income. Investment income and investment expense generally do not include any income or expense from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. Get the instructions for form FTB 3526 for more information.

## Credits

### Line 13a(1) – Withholding on Payments to the Partnership Allocated to All Partners

If taxes were withheld from payments to the partnership by another entity, this withholding is allocated to all partners according to their partnership interests.

### Line 13a(2) – Partnership Withholding on Nonresident Partners (Schedule K-1 (565) only)

If taxes were withheld-at-source on domestic or foreign nonresident partners, the withheld amount is entered on the partner's Schedule K-1 (565), line 13a(2). This is not a distributable item.

### Line 13a(3) – Total Withholding (Schedule K-1 (565) only)

The amounts on a partner's Schedule K-1 (565), line 13a(1) and line 13a(2) are added together to get the total amount of withholding credit for that partner for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide each

affected partner (including California residents) a completed Form 592-B. Partners must attach Form 592-B to the front of their California return to claim withheld amounts. Schedule K-1 (565) may **not** be used to claim this withholding credit.

### Line 13b through Line 13d

These lines relate to rental activities. Use line 14 to report credits related to trade or business activities.

**Note:** California line numbers are different from federal line numbers in this section.

### Line 13b – Low-Income Housing Credit

A credit may be claimed by owners of residential rental projects providing low-income housing (IRC Section 42). Generally, the credit is effective for buildings placed in service after 1986. Get form FTB 3521, Low-Income Housing Credit, for more information.

### Line 13c – Credits Related to Rental Real Estate Activities other than Line 13b

Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

### Line 13d – Credits Related to Other Rental Activities

Use this line to report information that the partners need to figure credits related to a rental activity. Attach to each partner's Schedule K-1 (565) a statement showing the amount to be reported and the applicable form on which the amount should be reported.

### Line 14 – Other Credits

Enter on an attached statement each partner's allocable share of any credit or credit information that is related to a trade or business activity.

Credits that can be reported on line 14 are:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution Credit. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring & Sales or Use Tax Credit. Get form FTB 3805Z.
- Farmworker Housing Credit – Construction. Use credit code 207.
- Farmworker Housing Credit – Loan. Use credit code 208.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax Credit. Get form FTB 3807.
- Manufacturers' Investment Credit. Get form FTB 3535.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Rice Straw Credit. Use credit code 206.
- Salmon and Steelhead Trout Habitat Restoration Credit. Use credit code 200.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax credit. Get form FTB 3809.

Line 14 may also include the distributive share of net income taxes paid to other states by the partnership. Subject to limitations of R&TC Section 18001 and R&TC Section 18006, partners may claim

a credit against their individual income tax for net income taxes paid by the partnership to another state. The amount of tax paid must be supported by a schedule of the credits and the states paid and evidence of payment of the tax. Refer the partners to Schedule S for more information.

**Reminder:** All of these credit forms and many other forms are available on our website. Go to our Website address at:  
[www.ftb.ca.gov](http://www.ftb.ca.gov)

## Adjustments and Tax Preference Items

### Line 15a through Line 15e

Enter each partner's distributive share of income and deductions that are adjustments and tax preference items. Get Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents, Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents, Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries, or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations, to determine amounts and for other information.

For additional information, see instructions for federal Schedule K (1065), Adjustments and Tax Preference Items, line 16a through line 16e. For differences between federal and California law for alternative minimum tax (AMT), see R&TC Section 17062.

## Other

### Line 16 through Line 21

See the instructions for federal Schedule K-1 (1065), "Other," line 18 through line 24.

### Line 22 — (Schedule K-1 (565) only)

The partnership may need to report supplemental information that is not specifically requested on the Schedule K-1 (565) separately to each partner.

Partners may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the partnership.

Alternative minimum taxable income does not include income, positive and negative adjustments, and preference items attributed to any trade or business of a qualified taxpayer who has aggregate gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses in which the taxpayer is an owner or has an ownership interest. The partnership should provide the partner's proportionate interest of aggregate gross receipts on Schedule K-1 (565), line 22.

For purposes of R&TC Section 17062(b)(4), "*aggregate gross receipts, less returns and allowances*" means the sum of:

- The gross receipts of the trades or businesses which the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; and
- The proportionate interest of the pass-through entity's gross receipts in which the taxpayer holds an interest.

"*Aggregate gross receipts*" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section, "*pass-through entity*" means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT), and a REMIC.

See R&TC Section 17062 for more information.

Also show on line 22 a statement showing each of the following:

1. Each partner's distributive share of business income apportioned to an EZ, LAMBRA, MEA, LARZ, or TTA; and
2. Each partner's distributive share of business capital gain or loss included in 1 above.

## Analysis — (Schedule K (565) only)

### Line 23a through Line 23b(2)

For the instructions for line 23a through line 23b(2) of Schedule K (565), see the instructions for federal Schedule K (1065), Analysis of Net Income (Loss).

## Tables — (Schedule K-1 (565) only)

### Table 1

Enter the partner's share of nonbusiness income from intangibles. Because the source of this income must be determined at the partner level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short-term and long-term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass.

**Note:** Enter nonbusiness income from intangibles in Table 1 net of related expenses.

### Table 2

The final determination of unity is made at the partner level. If the partnership and the partner are unitary, or if the partnership is uncertain as to whether it is unitary with the partner, it should furnish the information in Table 2.

**Part A.** Enter the partner's distributive share of the partnership's business income. The partner will then add that income to its own business income and apportion the combined business income.

"*Business income*" is defined as income arising in the regular course of the corporation's trade or business (Title 18, Cal. Code Reg. Section 25120(a)). Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitutes integral parts of the taxpayer's regular trade or business.

**Part B.** Enter the partner's share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income should also be included on the appropriate line in column (e).

Nonbusiness income is all income other than business income.

**Part C.** Enter the partner's distributive share of the partnership's payroll, property, and sales factors.

---

**THIS PAGE INTENTIONALLY LEFT BLANK**

---

**visit our website:**

**[www.ftb.ca.gov](http://www.ftb.ca.gov)**



# 2000 Partnership Return of Income

# 565

For calendar year 2000 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2000, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_.

<b>A</b> Principal business activity name (same as federal)	Partnership name (place label within block or type or print) _____ Check box if name changed <input type="checkbox"/>	<b>D</b> FEIN _____	<b>E</b> Date business started _____
<b>B</b> Principal product or service (same as federal)	DBA _____ Number and street (or PO Box number if mail is not delivered to street address) _____ PMB no. _____	<b>F</b> Enter total assets at end of year. See instructions.	
<b>C</b> Principal business code (same as federal)	City or town _____ State _____ ZIP Code _____	<b>G</b> Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)	
<b>G</b> Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)		<b>H</b> Secretary of State file number _____	
<b>I</b> Check applicable box (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Amended return			

**Caution:** Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

<b>Income</b>	1 <b>a</b> Gross receipts or sales \$ _____ <b>b</b> Less returns and allowances \$ _____ <b>c</b> Balance ●	1c	
	2 Cost of goods sold (Schedule A, line 8) .....	2	
	3 GROSS PROFIT. Subtract line 2 from line 1c .....	3	
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule .....	4	
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040) .....	5	
	6 Net gain (loss) from Schedule D-1, Part II, line 18 .....	6	
	7 Other income (loss). Attach schedule .....	7	
	8 <b>TOTAL</b> income (loss). Combine line 3 through line 7 .....	8	
<b>Deductions</b>	9 Salaries and wages (other than to partners) .....	9	
	10 Guaranteed payments to partners .....	10	
	11 Repairs .....	11	
	12 Bad debts .....	12	
	13 Rent .....	13	
	14 Taxes .....	14	
	15 Deductible interest expense not claimed elsewhere on return .....	15	
	16 <b>a</b> Depreciation and amortization. Attach form FTB 3885P \$ _____ <b>b</b> Less depreciation reported on Schedule A and elsewhere on return \$ _____ <b>c</b> Balance	16c	
	17 Depletion. Do not deduct oil and gas depletion .....	17	
	18 Retirement plans, etc. ....	18	
	19 Employee benefit programs .....	19	
20 Other deductions. Attach schedule .....	20		
21 <b>TOTAL</b> deductions. Add line 9 through line 20 .....	21		
22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 .....		22	
23 <b>Tax —\$800.00 (limited partnerships, LLPs, and REMICs only).</b> See instructions. ....		23	
<b>Pay-ments</b>	24 2000 nonresident withholding credit (\$800 maximum). See instructions ...	24	
	25 Amount paid with extension of time to file return .....	25	
	26 <b>Total payments.</b> Add line 24 and line 25 .....	26	
<b>Amount Due or Refund</b>	27 Tax due. If line 23 is more than line 26, subtract line 26 from line 23 .....	27	
	28 <b>Refund.</b> If line 26 is more than line 23, subtract line 23 from line 26 .....	28	
	29 Penalties and interest .....	29	
	30 <b>Total amount due.</b> Add line 27 and line 29. Make the check or money order payable to the Franchise Tax Board .....	30	
	Check here if the partnership does not need tax forms mailed next year .....	● <input type="checkbox"/>	

<b>Please Sign Here</b>	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		Telephone _____
	Signature of general partner _____		( ) _____
<b>Paid Preparer's Use Only</b>	Preparer's signature _____	Date _____	Preparer's SSN/PTIN _____
	Firm's name (or yours if self-employed) and address _____	Telephone _____	FEIN _____

1	Inventory at beginning of year	1		
2	Purchases less cost of items withdrawn for personal use	2		
3	Cost of labor	3		
4	Additional IRC Section 263A costs. Attach schedule	4		
5	Other costs. Attach schedule	5		
6	Total. Add line 1 through line 5	6		
7	Inventory at end of year	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8		

- 9 a** Check all methods used for valuing closing inventory:  
**(1)** ☐ Cost      **(2)** ☐ Lower of cost or market as described in Treas. Reg. Section 1.471-4      **(3)** ☐ Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c)      **(4)** ☐ Other. Specify method used and attach explanation \_\_\_\_\_
- b** Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 ..... ☐
- c** Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? ..... ☐ Yes ☐ No
- d** Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ..... ☐ Yes ☐ No

● 1 ☐ General partnership  
 ● 2 ☐ Limited partnership required to pay annual tax  
     (is doing business in California, is registered with SOS, or is organized in California)  
 ● 3 ☐ Limited partnership NOT required to pay annual tax  
     (is not doing business in California, is not registered with SOS, and is not organized in California)  
 ● 4 ☐ REMIC  
 ● 5 ☐ Limited liability partnership  
 ● 6 ☐ Other (See instructions)

**K** Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner) . . . . . ●

	Yes	No
<b>L</b> Is any partner of the partnership related by blood or marriage to any other partner? . . . . .		
<b>M</b> Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner? . . . . .		
<b>N</b> Are any partners in this partnership also partnerships or LLCs? . . . . .		
<b>O</b> Does the partnership meet all the requirements shown in the instructions for Question O? . . . . .		
<b>P</b> Is this partnership a partner in another partnership or LLC? If "Yes," attach a statement with the name(s) and FEIN(s) of each entity . . . . .		
<b>Q</b> Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If "Yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754 . . . . .		
<b>R</b> Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? . . . . .		
<b>S</b> Is this partnership under audit by the IRS or has it been audited in a prior year? . . . . .		
<b>T</b> Did this partnership or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership? (See instructions –Penalties May Apply) . . . . .		
<b>U</b> (1) Does the partnership have any foreign nonresident partners? . . . . .		
(2) Does the partnership have any nonresident partners? . . . . .		
(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners? . . . . .		
<b>V</b> Is this an investment partnership? (See instructions) . . . . .		
<b>W</b> Is the partnership apportioning income to California using Schedule R? . . . . .		
<b>X</b> Is the partnership required to complete federal Form 8271? If "Yes," see instructions . . . . .		

**Schedule K Partners' Shares of Income, Deductions, Credits, Etc.**

(a) Distributive share items		(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law
Income (Loss)	1 Ordinary income (loss) from trade or business activities (Side 1, line 22) ..	1 ●		
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825	2		
	3 a Gross income from other rental activities .....	3a		
	b Less expenses. Attach schedule .....	3b		
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a .....	3c		●
	4 Portfolio income (loss). See instructions:			
	a Interest income .....	4a		●
	b Dividend income .....	4b		●
	c Royalty income .....	4c		●
	d Net capital gain (loss) (Schedule D (565)) .....	4d		
e Other portfolio income (loss). Attach schedule .....	4e		●	
5 Guaranteed payments to partners .....	5		●	
6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1 .....	6		●	
7 Other income (loss). Attach schedule .....	7			
Deductions	8 Charitable contributions. See instructions. Attach schedule .....	8		
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions .....	9		
	10 Deductions related to portfolio income .....	10		
	11 Other deductions. Attach schedule .....	11		
Investment Interest	12 a Interest expense on investment debts .....	12a		●
	b (1) Investment income included on lines 4a, 4b, 4c, and line 4e above .....	12b(1)		
	(2) Investment expenses included on line 10 above .....	12b(2)		
Credits	13 a (1) Withholding on partnership allocated to all partners .....	13a(1)		
	b Low-income housing credit .....	13b		
	c Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule .....	13c		
	d Credit(s) related to other rental activities. See instructions. Attach schedule .....	13d		
	14 Other credits. See instructions. Attach schedule .....	14		●
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 ..	15a		
	b Adjusted gain or loss .....	15b		
	c Depletion (other than oil and gas) .....	15c		
	d (1) Gross income from oil, gas, and geothermal properties .....	15d(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties ...	15d(2)		
	e Other adjustments and tax preference items. Attach schedule .....	15e		
Other	16 a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule .....	16a		
	b Type of expenditures .....	16b		
	17 Tax-exempt interest income .....	17		
	18 Other tax-exempt income .....	18		●
	19 Nondeductible expenses .....	19		
	20 Distributions of money (cash and marketable securities) .....	20		
	21 Distribution of property other than money .....	21		
	22 Other items and amounts reported separately to partners. See instructions. Attach schedule .....	22		
Analy- sis	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a ...	23		●
	b Analysis by type of partner:			

	(a)	(b) Individual		(c)	(d)	(e)
	Corporate	i. Active	ii. Passive	Partnership	Exempt Organization	Nominee/Other
(1) General partners						
(2) Limited partners						

**Schedule L Balance Sheets.** See the instructions for Question N before completing Schedules L, M-1, and M-2.

Assets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
1 Cash .....				
2 a Trade notes and accounts receivable .....				
b Less allowance for bad debts .....	( )		( )	
3 Inventories .....				●
4 U.S. government obligations .....				
5 Tax-exempt securities .....				
6 Other current assets. Attach schedule .....				●
7 Mortgage and real estate loans .....				
8 Other investments. Attach schedule .....				●
9 a Buildings and other depreciable assets .....				
b Less accumulated depreciation .....	( )		( )	●
10 a Depletable assets .....				
b Less accumulated depletion .....	( )		( )	
11 Land (net of any amortization) .....				●
12 a Intangible assets (amortizable only) .....				
b Less accumulated amortization .....	( )		( )	
13 Other assets. Attach schedule .....				●
14 <b>TOTAL</b> assets .....				
<b>Liabilities and Capital</b>				
15 Accounts payable .....				●
16 Mortgages, notes, bonds payable in less than 1 year .....				●
17 Other current liabilities. Attach schedule .....				
18 All nonrecourse loans .....				●
19 Mortgages, notes, bonds payable in 1 year or more .....				●
20 Other liabilities. Attach schedule .....				●
21 Partners' capital accounts .....				●
22 <b>TOTAL</b> liabilities and capital .....				

**Schedule M-1 Reconciliation of Income per Books With Income per Return.** Use total amount under California law.

1 Net income (loss) per books .....		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize .....	●	a Tax-exempt interest \$ .....	●
3 Guaranteed payments (other than health insurance) .....		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$ .....	●
a Depreciation \$ .....		8 Total of line 6 and line 7 .....	
b Travel and entertainment \$ .....		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5 .....	
c Limited partnership tax \$ .....	●		
5 Total of line 1 through line 4 .....			

**Schedule M-2 Analysis of Partners' Capital Accounts**

1 Balance at beginning of year .....		6 Distributions: a Cash .....	●
2 Capital contributed during year .....	●	b Property .....	●
3 Net income (loss) per books .....		7 Other decreases. Itemize .....	
4 Other increases. Itemize .....		8 Total of line 6 and line 7 .....	●
5 Total of line 1 through line 4 .....	●	9 Balance at end of year. Subtract line 8 from line 5 .....	

# 2000 Partnership Return of Income

# 565

For calendar year 2000 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2000, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_.

<b>A</b> Principal business activity name (same as federal)	Partnership name (place label within block or type or print) _____ Check box if name changed <input type="checkbox"/>	<b>D</b> FEIN _____	<b>E</b> Date business started _____
<b>B</b> Principal product or service (same as federal)	DBA _____ Number and street (or PO Box number if mail is not delivered to street address) _____ PMB no. _____	<b>F</b> Enter total assets at end of year. See instructions.	
<b>C</b> Principal business code (same as federal)	City or town _____ State _____ ZIP Code _____	<b>G</b> \$ _____	
<b>G</b> Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)		<b>H</b> Secretary of State file number _____	
<b>I</b> Check applicable box (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Amended return			

**Caution:** Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

<b>Income</b>	1 <b>a</b> Gross receipts or sales \$ _____ <b>b</b> Less returns and allowances \$ _____ <b>c</b> Balance ●	1c	
	2 Cost of goods sold (Schedule A, line 8) .....	2	
	3 GROSS PROFIT. Subtract line 2 from line 1c .....	3	
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule .....	4	
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040) .....	5	
	6 Net gain (loss) from Schedule D-1, Part II, line 18 .....	6	
	7 Other income (loss). Attach schedule .....	7	
	8 <b>TOTAL</b> income (loss). Combine line 3 through line 7 .....	8	
<b>Deductions</b>	9 Salaries and wages (other than to partners) .....	9	
	10 Guaranteed payments to partners .....	10	
	11 Repairs .....	11	
	12 Bad debts .....	12	
	13 Rent .....	13	
	14 Taxes .....	14	
	15 Deductible interest expense not claimed elsewhere on return .....	15	
	16 <b>a</b> Depreciation and amortization. Attach form FTB 3885P \$ _____ <b>b</b> Less depreciation reported on Schedule A and elsewhere on return \$ _____ <b>c</b> Balance	16c	
	17 Depletion. Do not deduct oil and gas depletion .....	17	
	18 Retirement plans, etc. ....	18	
	19 Employee benefit programs .....	19	
20 Other deductions. Attach schedule .....	20		
21 <b>TOTAL</b> deductions. Add line 9 through line 20 .....	21		
22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8 .....	22		
23 <b>Tax —\$800.00 (limited partnerships, LLPs, and REMICs only).</b> See instructions. ....	23		
<b>Pay-ments</b>	24 2000 nonresident withholding credit (\$800 maximum). See instructions ...	24	
	25 Amount paid with extension of time to file return .....	25	
	26 <b>Total payments.</b> Add line 24 and line 25 .....	26	
<b>Amount Due or Refund</b>	27 Tax due. If line 23 is more than line 26, subtract line 26 from line 23 .....	27	
	28 <b>Refund.</b> If line 26 is more than line 23, subtract line 23 from line 26 .....	28	
	29 Penalties and interest .....	29	
	30 <b>Total amount due.</b> Add line 27 and line 29. Make the check or money order payable to the Franchise Tax Board .....	30	
	Check here if the partnership does not need tax forms mailed next year .....	● <input type="checkbox"/>	

<b>Please Sign Here</b>	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		Telephone _____
	Signature of general partner _____ Date _____		( )
<b>Paid Preparer's Use Only</b>	Preparer's signature ▶ _____	Date _____	Preparer's SSN/PTIN _____
	Firm's name (or yours if self-employed) and address ▶ _____	Telephone ( ) _____	Check if self-employed <input type="checkbox"/> FEIN _____

1	Inventory at beginning of year	1		
2	Purchases less cost of items withdrawn for personal use	2		
3	Cost of labor	3		
4	Additional IRC Section 263A costs. Attach schedule	4		
5	Other costs. Attach schedule	5		
6	Total. Add line 1 through line 5	6		
7	Inventory at end of year	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8		

- 9 a** Check all methods used for valuing closing inventory:  
**(1)** ☐ Cost      **(2)** ☐ Lower of cost or market as described in Treas. Reg. Section 1.471-4      **(3)** ☐ Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c)      **(4)** ☐ Other. Specify method used and attach explanation \_\_\_\_\_
- b** Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 ..... ☐
- c** Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? ..... ☐ Yes ☐ No
- d** Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ..... ☐ Yes ☐ No

● 1 ☐ General partnership  
 ● 2 ☐ Limited partnership required to pay annual tax  
     (is doing business in California, is registered with SOS, or is organized in California)  
 ● 3 ☐ Limited partnership NOT required to pay annual tax  
     (is not doing business in California, is not registered with SOS, and is not organized in California)  
 ● 4 ☐ REMIC  
 ● 5 ☐ Limited liability partnership  
 ● 6 ☐ Other (See instructions)

**K** Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner) . . . . . ●

	Yes	No
<b>L</b> Is any partner of the partnership related by blood or marriage to any other partner? . . . . .		
<b>M</b> Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner? . . . . .		
<b>N</b> Are any partners in this partnership also partnerships or LLCs? . . . . .		
<b>O</b> Does the partnership meet all the requirements shown in the instructions for Question O? . . . . .		
<b>P</b> Is this partnership a partner in another partnership or LLC? If "Yes," attach a statement with the name(s) and FEIN(s) of each entity . . . . .		
<b>Q</b> Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If "Yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754 . . . . .		
<b>R</b> Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? . . . . .		
<b>S</b> Is this partnership under audit by the IRS or has it been audited in a prior year? . . . . .		
<b>T</b> Did this partnership or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership? (See instructions –Penalties May Apply) . . . . .		
<b>U</b> (1) Does the partnership have any foreign nonresident partners? . . . . .		
(2) Does the partnership have any nonresident partners? . . . . .		
(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners? . . . . .		
<b>V</b> Is this an investment partnership? (See instructions) . . . . .		
<b>W</b> Is the partnership apportioning income to California using Schedule R? . . . . .		
<b>X</b> Is the partnership required to complete federal Form 8271? If "Yes," see instructions . . . . .		

**Schedule K Partners' Shares of Income, Deductions, Credits, Etc.**

(a) Distributive share items		(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law
Income (Loss)	1 Ordinary income (loss) from trade or business activities (Side 1, line 22) ..	1 ●		
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825	2		
	3 a Gross income from other rental activities .....	3a		
	b Less expenses. Attach schedule .....	3b		
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a .....	3c		●
	4 Portfolio income (loss). See instructions:			
	a Interest income .....	4a		●
	b Dividend income .....	4b		●
	c Royalty income .....	4c		●
	d Net capital gain (loss) (Schedule D (565)) .....	4d		
e Other portfolio income (loss). Attach schedule .....	4e		●	
5 Guaranteed payments to partners .....	5		●	
6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1 .....	6		●	
7 Other income (loss). Attach schedule .....	7			
Deductions	8 Charitable contributions. See instructions. Attach schedule .....	8		
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions .....	9		
	10 Deductions related to portfolio income .....	10		
	11 Other deductions. Attach schedule .....	11		
Investment Interest	12 a Interest expense on investment debts .....	12a		●
	b (1) Investment income included on lines 4a, 4b, 4c, and line 4e above .....	12b(1)		
	(2) Investment expenses included on line 10 above .....	12b(2)		
Credits	13 a (1) Withholding on partnership allocated to all partners .....	13a(1)		
	b Low-income housing credit .....	13b		
	c Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule .....	13c		
	d Credit(s) related to other rental activities. See instructions. Attach schedule .....	13d		
	14 Other credits. See instructions. Attach schedule .....	14		●
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 ..	15a		
	b Adjusted gain or loss .....	15b		
	c Depletion (other than oil and gas) .....	15c		
	d (1) Gross income from oil, gas, and geothermal properties .....	15d(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties ...	15d(2)		
	e Other adjustments and tax preference items. Attach schedule .....	15e		
Other	16 a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule .....	16a		
	b Type of expenditures .....	16b		
	17 Tax-exempt interest income .....	17		
	18 Other tax-exempt income .....	18		●
	19 Nondeductible expenses .....	19		
	20 Distributions of money (cash and marketable securities) .....	20		
	21 Distribution of property other than money .....	21		
	22 Other items and amounts reported separately to partners. See instructions. Attach schedule .....	22		
Analy- sis	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a ...	23		●
	b Analysis by type of partner:			

	(a)	(b) Individual		(c)	(d)	(e)
	Corporate	i. Active	ii. Passive	Partnership	Exempt Organization	Nominee/Other
(1) General partners						
(2) Limited partners						



**Schedule L Balance Sheets.** See the instructions for Question N before completing Schedules L, M-1, and M-2.

Assets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	( )		( )	●
10 a Depletable assets				
b Less accumulated depletion	( )		( )	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
13 Other assets. Attach schedule				●
14 TOTAL assets				
<b>Liabilities and Capital</b>				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 TOTAL liabilities and capital				

**Schedule M-1 Reconciliation of Income per Books With Income per Return.** Use total amount under California law.

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize	●	a Tax-exempt interest \$	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$	●
a Depreciation \$		8 Total of line 6 and line 7	
b Travel and entertainment \$		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	
c Limited partnership tax \$	●		
5 Total of line 1 through line 4			

**Schedule M-2 Analysis of Partners' Capital Accounts**

1 Balance at beginning of year		6 Distributions: a Cash	●
2 Capital contributed during year	●	b Property	●
3 Net income (loss) per books		7 Other decreases. Itemize	
4 Other increases. Itemize			●
	●	8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5	



YEAR

# 2000 Partner's Share of Income, Deductions, Credits, etc.

CALIFORNIA SCHEDULE

K-1 (565)

For calendar year 2000 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2000, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_

**Partner's identifying number**

Partner's name, address, state, and ZIP Code

**Partnership's FEIN****Secretary of State file number**

Partnership's name, address, state, and ZIP Code

**A** Is this partner a: • **(1)** ☐ general partner; or **(2)** ☐ limited partner?**B** What type of entity is this partner? •

- (1)** ☐ Individual      **(5)** ☐ General Partnership      **(8)** ☐ LLC  
**(2)** ☐ S Corporation      **(6)** ☐ Limited Partnership      **(9)** ☐ IRA/Keogh/SEP  
**(3)** ☐ Estate/Trust      **(7)** ☐ LLP      **(10)** ☐ Exempt Organization  
**(4)** ☐ C Corporation

**C** Is this partner a foreign partner? ..... • ☐ Yes ☐ No

**D** Enter partner's percentage (without regard to special allocations) of:

**(i)** Before decrease or termination      **(ii)** End of year

Profit sharing ..... % • ..... %

Loss sharing ..... % • ..... %

Ownership of capital ..... % • ..... %

**E** Partner's share of liabilities:

Nonrecourse ..... • \$ \_\_\_\_\_

Qualified nonrecourse financing ..... • \$ \_\_\_\_\_

Other ..... • \$ \_\_\_\_\_

**F** Tax shelter registration number \_\_\_\_\_**G** **(1)** Check here if this is a publicly traded partnershipas defined in IRC Section 469(k)(2) ..... ☐**(2)** Check here if this is an investment partnership(R&TC Sections 17955 and 23040.1) ..... ☐**H** Check here if this is: •**(1)** ☐ A final Schedule K-1 (565)      **(2)** ☐ An amended Schedule K-1 (565)**I** Is this partner a nonresident of California? ..... ► ☐ Yes • ☐ No**J** Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of line 3, line 4, and line 7, Form 565, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine column (a) through column (d))
•	•	•	( )	•

**Caution:** Refer to Partner's Instructions for Schedule K-1 (565) before entering information from this schedule on your California return.

(a) Distributive share items		(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law (Combine col. (b) and col. (c))	(e) California source amounts and credits
Income (Loss)	<b>1</b> Ordinary income (loss) from trade or business activities .....			•	►
	<b>2</b> Net income (loss) from rental real estate activities .....			•	►
	<b>3</b> Net income (loss) from other rental activities .....				
	<b>4</b> Portfolio income (loss):				
	<b>a</b> Interest .....			•	►
	<b>b</b> Dividends .....			•	►
	<b>c</b> Royalties .....			•	►
	<b>d</b> Net capital gain (loss) .....			•	►
	<b>e</b> Other portfolio income (loss). Attach schedule .....			•	►
	<b>5</b> Guaranteed payments to partners .....			•	►
Deductions	<b>6</b> Net gain (loss) under IRC Section 1231 (other than due to casualty or theft) .....			•	►
	<b>7</b> Other income (loss). Attach schedule .....			•	►
	<b>8</b> Charitable contributions .....				
	<b>9</b> Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule .....				
	<b>10</b> Deductions related to portfolio income. Attach schedule .....				
	<b>11</b> Other deductions. Attach schedule .....				

(a) Distributive share items		(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law (Combine col. (b) and col. (c))	(e) California source amounts and credits
Investment Interest	12 a Interest expense on investment debts . . .				
	b (1) Investment income included on lines 4a, 4b, 4c, and 4e . . . . .				
	(2) Investment expenses included on line 10				
Credits	13 a (1) Withholding on partnership allocated to all partners . . . . .				
	(2) Partnership withholding on nonresident partners . . . . .				
	(3) Total withholding (equals amount on Form 592-B if calendar year partnership) . . . . .				
	b Low-income housing credit . . . . .				
	c Credits other than line 13b related to rental real estate activities. Attach schedule . . .				
	d Credits related to other rental activities. See instructions. Attach schedule . . . . .				
	14 Other credits. Attach required schedules or statements . . . . .				
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 . . . . .				
	b Adjusted gain or loss . . . . .				
	c Depletion (other than oil and gas) . . . . .				
	d (1) Gross income from oil, gas, and geothermal properties . . . . .				
	(2) Deductions allocable to oil, gas, and geothermal properties . . . . .				
	e Other adjustments and tax preference items. Attach schedule . . . . .				
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply . . .				
	b Type of expenditures				
	17 Tax-exempt interest income . . . . .				
	18 Other tax-exempt income . . . . .				
	19 Nondeductible expenses . . . . .				
	20 Distributions of money (cash and marketable securities) . . . . .				
	21 Distributions of property other than money				
22 Supplemental information required to be reported separately to each partner. Attach additional schedules. See instructions. \$					

**Table 1** — Partner's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the partner):

Interest \$ \_\_\_\_\_ Sec. 1231 Gains/Losses \$ \_\_\_\_\_ Capital Gains/Losses \$ \_\_\_\_\_  
Dividends \$ \_\_\_\_\_ Royalties \$ \_\_\_\_\_ Other \$ \_\_\_\_\_

FOR USE BY APPORTIONING UNITARY PARTNERS ONLY —See instructions.

**Table 2** — Partner's share of distributive items.

- A. Partner's share of the partnership's business income. See instructions. \$ \_\_\_\_\_
- B. Partner's share of nonbusiness income from real and tangible personal property sourced or allocable to California.  
Capital Gains/Losses \$ \_\_\_\_\_ Rents/Royalties \$ \_\_\_\_\_  
Sec. 1231 Gains/Losses \$ \_\_\_\_\_ Other \$ \_\_\_\_\_
- C. Partner's distributive share of the partnership's property, payroll, and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$	\$
Ending	\$	\$
Annual Rent Expense	\$	\$
Payroll	\$	\$
Sales	\$	\$

# Member's Share of Income, Deductions, Credits, etc.

For calendar year 2000 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2000, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_

**Member's identifying number**

Member's name, address, state, and ZIP Code

**LLC's FEIN****Secretary of State file number**

LLC's name, address, state, and ZIP Code

**A** What type of entity is this member? ●

- (1) ☐ Individual (5) ☐ General Partnership (8) ☐ LLC  
 (2) ☐ S Corporation (6) ☐ Limited Partnership (9) ☐ IRA/Keogh/SEP  
 (3) ☐ Estate/Trust (7) ☐ LLP (10) ☐ Exempt Organization  
 (4) ☐ C Corporation

**B** Is this member a foreign member? ..... ● ☐ Yes ☐ No**C** Enter member's percentage (without regard to special allocations) of:

(i) Before decrease or termination (ii) End of year

Profit sharing ..... % ● ..... %  
 Loss sharing ..... % ● ..... %  
 Ownership of capital ..... % ● ..... %

**D** Member's share of liabilities:

Nonrecourse ..... ● \$ .....  
 Qualified nonrecourse financing ..... ● \$ .....  
 Other ..... ● \$ .....

**E** Tax shelter registration number .....**F** (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2) ..... ☐

(2) Check here if this is an investment partnership (R&TC Sections 17955 and 23040.1) ..... ☐

**G** Check here if this is: ●

(1) ☐ A final Schedule K-1 (568) (2) ☐ An amended Schedule K-1 (568)

**H** Is this member a nonresident of California? ..... ► ☐ Yes ● ☐ No**I** Analysis of member's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Member's share of line 3, line 4, and line 7 Form 568, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine column (a) through column (d))
●	●	●	( )	●

**Caution:** Refer to Member's Instructions for Schedule K-1 (568) before entering information from this schedule on your California return.

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law (Combine col. (b) and col. (c))	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities .....			●	►
	2 Net income (loss) from rental real estate activities .....			●	►
	3 Net income (loss) from other rental activities .....				
	4 Portfolio income (loss):				
	a Interest .....			●	►
	b Dividends .....			●	►
	c Royalties .....			●	►
Deductions	d Net capital gain (loss) .....			●	►
	e Other portfolio income (loss). Attach schedule .....			●	►
	5 Guaranteed payments to members .....			●	►
	6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft) .....			●	►
	7 Other income (loss). Attach schedule .....			●	►
	8 Charitable contributions .....				
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule .....				
	10 Deductions related to portfolio income. Attach schedule .....				
	11 Other deductions. Attach schedule .....				

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. (Combine col. (b) and col. (c))	(e) California source amounts and credits
Investment Interest	12 a Interest expense on investment debts . . .				
	b (1) Investment income included on lines 4a, 4b, 4c, and 4e . . . . .				
	(2) Investment expenses included on line 10				
Credits	13 a (1) Withholding on LLC allocated to all members . . . . .				
	(2) LLC withholding on nonresident members . . . . .				
	(3) Total withholding (equals amount on Form 592-B if calendar year LLC) . . .				
	b Low-income housing credit . . . . .				
	c Credits other than line 13b related to rental real estate activities. Attach schedule . . . .				
	d Credits related to other rental activities. See instructions. Attach schedule . . . . .				
	e Nonconsenting member's tax paid by LLC				
	14 Other credits. Attach required schedules or statements . . . . .				
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986 . . . . .				
	b Adjusted gain or loss . . . . .				
	c Depletion (other than oil and gas) . . . . .				
	d (1) Gross income from oil, gas, and geothermal properties . . . . .				
	(2) Deductions allocable to oil, gas, and geothermal properties . . . . .				
	e Other adjustments and tax preference items. Attach schedule . . . . .				
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply.				
	b Type of expenditures				
	17 Tax-exempt interest income . . . . .				
	18 Other tax-exempt income . . . . .				
	19 Nondeductible expenses . . . . .				
	20 Distributions of money (cash and marketable securities) . . . . .				
	21 Distributions of property other than money				
	22 Supplemental information required to be reported separately to each member. Attach additional schedules. See instructions. \$ _____				

**Table 1** — Member's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the member):

Interest	\$ _____	Sec. 1231 Gains/Losses	\$ _____	Capital Gains/Losses	\$ _____
Dividends	\$ _____	Royalties	\$ _____	Other	\$ _____

FOR USE BY APPORTIONING UNITARY MEMBERS ONLY –See instructions.

**Table 2** — Member's share of distributive items.

- A. Member's share of the LLC's business income. See instructions. \$ \_\_\_\_\_
- B. Member's share of nonbusiness income from real and tangible personal property sourced or allocable to California.

Capital Gains/Losses	\$ _____	Rents/Royalties	\$ _____
Sec. 1231 Gains/Losses	\$ _____	Other	\$ _____

- C. Member's distributive share of the LLC's property, payroll, and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$ _____	\$ _____
Ending	\$ _____	\$ _____
Annual Rent Expense	\$ _____	\$ _____
Payroll	\$ _____	\$ _____
Sales	\$ _____	\$ _____

## 2000 Depreciation and Amortization

**3885P**

Name as shown on return

FEIN

Assets placed in service after 12/31/99 (depreciation):

Intangibles placed in service after 12/31/99 (amortization):

## Depreciation of Assets

### Amortization of Property

[illegible]

**1** Enter line 1, column (f) and column (i) totals here ..... **1**

## Depreciation

**2** California depreciation for assets placed in service before January 1, 2000 ..... **2**

**Note:** Be sure to make adjustments for any basis differences.

**3** Total California depreciation. Add line 1(f) and line 2 ..... **3** \_\_\_\_\_

## Amortization

4 California amortization for intangibles placed in service before January 1, 2000 ..... 4

**Note:** Be sure to make adjustments for any basis differences.

**5** Total California amortization. Add line 1(i) and line 4 ..... **5**

**6** Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities **6**

**7** IRC Section 179 expense election from worksheet. See instructions ..... **7**

**8** Carryover of disallowed deduction to 2001. Enter line 13 from worksheet here ..... **8** \_\_\_\_\_

## 2000 Capital Gain or Loss

**D (565)**

Name as shown on return

FEIN

[illegible]

**1** Enter line 1, column (f) total here ..... **1**

**2** Capital gain from installment sales, form FTB 3805E, line 26 or line 37 ..... **2**

**3** Partnership's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries, and S corporations . . . **3**

<b>4 Capital gain distributions</b>	<b>4</b>
-------------------------------------	----------

<b>5</b>	Net capital gain (loss). Add line 1, line 2, line 3, and line 4. Enter total on Schedule K, line 4d, and each partner's share on Schedule K-1 (565), line 4d	<b>5</b>
----------	--	----------

---

**THIS PAGE INTENTIONALLY LEFT BLANK**

---

**visit our website:**

**[www.ftb.ca.gov](http://www.ftb.ca.gov)**

## 2000 Depreciation and Amortization

**3885P**

Name as shown on return

FEIN

Assets placed in service after 12/31/99 (depreciation):

Intangibles placed in service after 12/31/99 (amortization):

## Depreciation of Assets

### Amortization of Property

[illegible]

**1** Enter line 1, column (f) and column (i) totals here ..... **1**

## Depreciation

**2** California depreciation for assets placed in service before January 1, 2000 ..... **2**

**Note:** Be sure to make adjustments for any basis differences.

**3** Total California depreciation. Add line 1(f) and line 2 ..... **3** \_\_\_\_\_

## Amortization

4 California amortization for intangibles placed in service before January 1, 2000 ..... 4

**Note:** Be sure to make adjustments for any basis differences.

**5** Total California amortization. Add line 1(i) and line 4 ..... **5**

**6** Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities **6**

7 IRC Section 179 expense election from worksheet. See instructions ..... 7

**8** Carryover of disallowed deduction to 2001. Enter line 13 from worksheet here ..... **8** \_\_\_\_\_

## 2000 Capital Gain or Loss

**D (565)**

Name as shown on return

FEIN

[illegible]

**1** Enter line 1, column (f) total here ..... **1**

**2** Capital gain from installment sales, form FTB 3805E, line 26 or line 37 ..... **2**

**3** Partnership's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries, and S corporations . . . **3**

<b>4 Capital gain distributions</b>	<b>4</b>
-------------------------------------	----------

<b>5</b>	Net capital gain (loss). Add line 1, line 2, line 3, and line 4. Enter total on Schedule K, line 4d, and each partner's share on Schedule K-1 (565), line 4d	<b>5</b>
----------	--	----------

---

**THIS PAGE INTENTIONALLY LEFT BLANK**

---

**visit our website:**

**[www.ftb.ca.gov](http://www.ftb.ca.gov)**



# Instructions for Form FTB 3885P

## Depreciation and Amortization

### General Information

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to most of the changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) and has not conformed to any changes made by the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), and the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170).

### A Purpose

Use form FTB 3885P, Depreciation and Amortization, to compute depreciation and amortization allowed as a deduction on Form 565, Partnership Return of Income. Attach form FTB 3885P to Form 565.

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is an amount deducted to recover the cost of certain capital expenses over a fixed period.

In general, California conforms to federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

### B Federal/State Calculation Differences

California law has not always conformed to federal law with regard to depreciation methods, special credits, or accelerated write-offs. Consequently, the recovery periods and the basis on which the depreciation is calculated may be different from the amounts used for federal purposes. Reportable differences may occur if all or part of your assets were placed in service:

- **Before January 1, 1987:** California did not allow depreciation under the federal Accelerated Cost Recovery System (ACRS). California depreciation is calculated in the same manner as in prior years for those assets.
- **On or after January 1, 1987:** California provides special credits and accelerated write-offs that affect the California basis for qualifying assets. California does not conform to all the changes to federal law enacted in 1993. Therefore, the California basis or recovery periods may be different for some assets.

Additional differences may occur for the following:

- **Amortization of certain intangibles** (IRC Section 197): Property classified as Section 197 property under federal law is also Section 197 property for California purposes. There is no separate California election required or allowed. However, for Section 197 property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period.
- **Qualified Indian reservation property:** California has not conformed to the accelerated recovery periods available under the Alternative Depreciation System (ADS) for such property.
- **Grapevines subject to Phylloxera or Pierce's Disease:** For California purposes, replacement grapevines may be depreciated using a recovery period of five years instead of ten years.

**Note:** This list is not intended to be all-inclusive of the federal and state differences. For additional information, please refer to California's Revenue and Taxation Code.

### Specific Line Instructions

#### Line 1 – California depreciation for assets placed in service after December 31, 1999 and amortization for intangibles placed in service after December 31, 1999.

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 1999. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

#### Line 2 – California depreciation for assets placed in service before January 1, 2000

Enter total California depreciation for assets placed in service prior to January 1, 2000, taking into account any differences in asset basis or differences in California and federal tax law.

#### Line 4 – California amortization for intangibles placed in service before January 1, 2000

Enter total California amortization for intangibles placed in service prior to January 1, 2000, taking into account any differences in asset basis or differences in California and federal tax law.

#### Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents. If the partnership has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

#### Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, Schedule B, line 16a.

If depreciation or amortization is from more than one trade or business activity, or from more than one rental real estate activity, the partnership should separately compute depreciation for each activity. Use the depreciation computed on this form to identify the net income for each activity. Report the net income from each activity on an attachment to Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., for purposes of passive activity reporting requirements. Use California amounts to determine the depreciation amount to enter on line 14 of federal Form 8825, Rental Real Estate Income and Expenses of Partnership or an S Corporation.

**Line 7** – Enter the Internal Revenue Code (IRC) Section 179 expense election amount from the following worksheet.

These limitations apply to the partnership and each partner.

**Election to Expense Certain Tangible Property (IRC Section 179)**

**Note:** Follow the instructions on federal Form 4562 for listed property.

<b>1</b>	Maximum dollar limitation	<b>1</b>	\$ 20,000
<b>2</b>	Total cost of IRC Section 179 property placed in service during the tax year	<b>2</b>	
<b>3</b>	Threshold cost of IRC Section 179 property placed in service during the tax year	<b>3</b>	\$200,000
<b>4</b>	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	<b>4</b>	
<b>5</b>	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-	<b>5</b>	

(a) Property	(b) Cost	(c) Elected cost
<b>6</b>		

<b>7</b>	Listed property. Use federal Form 4562, Part V, line 27, making any adjustments for California law and basis differences	<b>7</b>	
<b>8</b>	Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7	<b>8</b>	
<b>9</b>	Tentative deduction. Enter the smaller of line 5 or line 8	<b>9</b>	
<b>10</b>	Carryover of disallowed deduction from 1999. See instructions for line 9 through line 12 on the federal Form 4562	<b>10</b>	
<b>11</b>	Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership (other than credits, tax-exempt IRC Section 179 expense deduction, and guaranteed payments under IRC Section 707(c))	<b>11</b>	
<b>12</b>	IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (565), line 9 and on form FTB 3885P, line 7	<b>12</b>	
<b>13</b>	Carryover of disallowed deduction to 2001. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885P	<b>13</b>	

## Instructions for Schedule D (565)

### Capital Gain or Loss

#### General Information

Use Schedule D (565), Capital Gain or Loss, to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners. Do not use this form to report the sale of business property. For sales of business properties, use California Schedule D-1, Sale of Business Property.

Enter specially allocated capital gains (losses) received from limited liability companies (LLCs), partnerships, S corporations, and fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., line 4d. Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565) and Schedule K-1 (565) for more information. Also refer to the instructions for federal Schedule D (1065).

California law now conforms to federal law for the recognition of gain for a constructive sale of property in which the partnership held an appreciated interest.

California Revenue and Taxation Code (R&TC) Section 18152.5 conforms to Internal Revenue Code (IRC) Section 1202, regarding the 50% exclusion of gain or losses, with modifications. In order to be eligible for the 50% exclusion of gain on qualified small business stock for stock issued after August 10, 1993, the corporation issuing the stock must meet the following conditions in addition to the conditions provided in IRC Section 1202:

- 80% of the corporation's payroll, as measured by total dollar value, is attributable to employment located in California; and
- 80% (by value) of the assets of the corporation are used by the corporation in the active conduct of a trade or business in California.

**Note:** The partnership also must separately state the amount of the gain that qualifies for the 50% exclusion under R&TC Section 18152.5 on Schedule K, line 7. Each partner must determine if he or she qualifies for the gain at the partner level.

# Instructions for Form FTB 3538

## Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs

### General Information

California does not require the filing of written extensions. If a partnership cannot file Form 565, Partnership Return of Income, by the return's due date, the partnership is granted an automatic six month extension.

If the tax return is filed by the 15th day of the 10th month following the close of the taxable year (fiscal year) or by October 15, 2001 (calendar year), the extension will apply.

However, an extension of time to **file** the limited partnership, limited liability partnership (LLP), or real estate mortgage investment conduit (REMIC) return is **not** an extension of time to **pay** the \$800 annual tax.

Only use form FTB 3538 if:

- The Limited Partnership, LLP, or REMIC cannot file Form 565 by the due date; and
- Tax is owed for 2000.

If tax is not owed, there is nothing to file at this time and no need to complete or mail this voucher.

If tax is owed, complete the voucher below. Mail the voucher along with the check or money order to the Franchise Tax Board by the 15th day of the 4th month (fiscal year) or April 16, 2001 (calendar year) to avoid a late payment penalty.

Use the payment voucher below to mail in the \$800 annual tax payment by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 16, 2001 (calendar year).

### How to Complete Form FTB 3538

Enter all the information requested on this form. To ensure the timely and proper application of this payment to the partnership's account, enter the federal employer identification number (FEIN) and the Secretary of State (SOS) file number (assigned upon registration with the SOS).

**Note:** If you lease a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the PMB number in the field labeled "PMB no." in the address area.

### Where to File

Detach and mail the voucher portion along with the payment to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0651

### Penalties and Interest

An extension of time to file a return is not an extension of time to pay the tax. If the entity fails to pay its total tax liability by the due date of the tax return, a late payment penalty and interest will be added to the tax due. To avoid late payment penalties and interest, 100% of the tax liability must be paid by the 15th day of the 4th month, following the close of the taxable year (fiscal year), or April 16, 2001 (calendar year).

### Internet Access

You may download, view, and print tax year 1994 through tax year 2000 California tax forms and publications. Go to our Website at: [www.ftb.ca.gov](http://www.ftb.ca.gov)

----- DETACH HERE -----

TAXABLE YEAR

**2000**

## Payment Voucher for Automatic Extension for Limited Partnerships, LLPs, and REMICs

CALIFORNIA FORM

**3538 (565)**

For calendar year 2000 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2000, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_ .  
Partnership/LLP/REMIC name \_\_\_\_\_ Federal employer identification number (FEIN) \_\_\_\_\_

DBA/Attention \_\_\_\_\_ Secretary of State file number \_\_\_\_\_

Delivery address \_\_\_\_\_ PMB no. \_\_\_\_\_

City, town, or post office \_\_\_\_\_ State \_\_\_\_\_ ZIP Code \_\_\_\_\_

Make your check or money order payable to "Franchise Tax Board." Write the FEIN and "FTB 3538 2000" on the check or money order. Mail this voucher and the check or money order to:  
**FRANCHISE TAX BOARD**  
**PO BOX 942857**  
**SACRAMENTO CA 94257-0651**

(Calendar year —  
Due April 16, 2001)

Amount of payment  
\_\_\_\_\_  
\_\_\_\_\_

353800109

FTB 3538 2000

---

**THIS PAGE INTENTIONALLY LEFT BLANK**

---

**visit our website:**

**[www.ftb.ca.gov](http://www.ftb.ca.gov)**

# Partner's Instructions for Schedule K-1 (565)

## General Information

### A Purpose

The partnership uses Schedule K-1 (565) to report your distributive share of the partnership's income, deductions, credits, etc. Please keep the Schedule K-1 (565) for your records. Information from the Schedule K-1 (565) should be used to complete your California return. However, do not file the schedule with your California return. The partnership has filed a copy with the Franchise Tax Board (FTB).

**As a partner of the partnership, you are subject to tax on your distributive share of the partnership income, whether or not distributed.**

The amount of loss and deduction you are allowed to claim on your California return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you are allowed to claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity loss and credit rules. It is the partner's responsibility to consider and apply any applicable limitations. See Specific Instructions C, Loss Limitations.

You should also read the federal Schedule K-1 (1065) instructions before completing your California return with this Schedule K-1 (565) information.

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications:

- Publication 541, Tax Information on Partnerships, and
- Publication 535, Business Expenses.

Any information returns required for federal purposes under Internal Revenue Code (IRC) Sections 6038, 6038A, and 6038B are also required for California purposes. Attach the information returns to your California return when filed. If the information returns are not provided, penalties may be imposed under California Revenue and Taxation Code (R&TC) Sections 19141.2 and 19141.5.

**Reminder:** Most of our forms and many others are available on our website. Our website address is: [www.ftb.ca.gov](http://www.ftb.ca.gov)

### B Definitions

#### General Partner

An individual or entity owning interest in a partnership who is personally liable for partnership debts and who is authorized to act on behalf of the partnership.

#### Limited Partner

An individual or entity owning interest in a partnership whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

#### Nonrecourse Loans

Liabilities of the partnership for which none of the partners have assumed any personal liability.

#### Qualified Nonrecourse Financing

Any financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government, or borrowed from a "qualified person."

#### California Business Situs

The place at which intangible personal property is employed as capital in California; or the place where the property is located if possession and control of the property is localized in connection with the taxpayer's business that is within this state, so that substantial use or value attaches to the property. The term is generally used in reference to:

- The income of nonresidents from intangible personal property, such as shares of corporate stocks, bonds, notes, bank deposits, and other indebtedness; or
- The income of nonresidents from rents or royalties for the use of, or for the privilege of using in this state, patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises, and other like property.

### Apportionment

The process by which business income from a trade or business conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the property (including rent), payroll, and sales factors of the apportioning trade or business.

### Unitary

A method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, regardless of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. For further information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

### Election

The choice of a particular accounting method for tax reporting purposes. Generally, the partnership decides how to compute taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made separately on your California return and not by the partnership. These elections are made under the following IRC Sections, to which the R&TC conforms:

- IRC Section 108(b)(5) (income from discharge of indebtedness); and
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred).

### Additional Definitions

For definitions of a partnership, general partnership, limited partnership, limited liability partnership, etc., see the instructions for Form 565, Partnership Return of Income, or the instructions for federal Form 1065, U.S. Partnership Return of Income.

### C Reporting Information from Columns (d) and (e)

If the partnership derives income from activities conducted both within and outside California, the partnership will complete Schedule R, Apportionment and Allocation of Income, to determine the partnership income from California sources. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss.

Nonresident, corporate, and other entity partners must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (565). Special rules apply if a partner and the partnership engage in a unitary business. See Title 18, Cal. Code Reg. Sections 17951 and 25137-1 for more information. Also see General Information E, Unitary Partners. Nonresident, corporate, and other entity partners (other than partners that are unitary with the partnership) will use the information in columns (c), (d), and (e) to report their distributive share of income (losses) or credits. Residents, part-year residents, and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information get Schedule S, Other State Tax Credit.

Nonapportioning partnerships do not need to fill out column (e) on Schedule K-1 (565) if the partner is a resident and the "No" box is checked on Question I. However, the final determination of residency is made at the partner level. If the partnership is uncertain as to the residency status of the partner, it should fill out column (e) for that partner.

## **D Income Not from a Trade Or Business of the Partnership (Nonbusiness Income)**

If the partnership has income that is not from a trade or business (nonbusiness income), the source of that nonbusiness intangible income will be determined at the partner level. However, nonbusiness income from real or tangible personal property located in California, such as rents, royalties, gains, or losses is California source income (Title 18, Cal. Code Reg. Section 17951-3 and R&TC Sections 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the partnership believes it is unitary with the partner or if the partnership is uncertain whether it is unitary with the partner. Non-unitary partners should ignore the information in Table 2 and use column (e).

The source of income from all nonbusiness intangibles will depend on whether the partner is required to apportion its income and whether the partner is a corporation. In most cases, income from nonbusiness intangible property is sourced at the residence or commercial domicile of the partner.

However, for individuals, estates, trusts, and S corporations that are not required to apportion income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds, or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in this state. The bank account will acquire a business situs in California. See Title 18, Cal. Code Reg. Section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is an apportioning taxpayer or a corporation, Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 require that nonbusiness income from intangibles be allocated in accordance with the rules of R&TC Sections 25126 and 25127.

Because the source of intangible nonbusiness income is dependent upon the status of the individual partner, that income is not included in column (e) and is entered only in Table 1. The partner must determine the source of such income by applying the rules described above.

## **E Unitary Partners**

**Note:** The following rules apply not only to corporations, but also to individuals and other entities that conduct a trade or business that is unitary with the partnership's trade or business (see Title 18, Cal. Code Reg. Section 17951, incorporating the provisions of Section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2 as described below and in Specific Line Instruction G and Specific Line Instruction H.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in California or that is includible in the partner's business income subject to apportionment is made in accordance with Title 18, Cal. Code Reg. Section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to above for any partnership taxable year ending within or with the partner's tax accounting period.

## **Distributive Items of Business Income**

### **Apportionment of Business Income –Unitary Business**

If the partnership's activities and the partner's activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors with the factors of the partner for any partnership year ending within the partner's tax accounting period. Combined business income is then apportioned by using a 3- or 4-factor formula consisting of the combined property, payroll, and a single or double-weighted sales factor. Use of a 3-factor formula depends upon whether combined gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are more than 50% from agricultural, extractive, savings and loans, banking, or financial business activities.

If you are a partner that is unitary with the partnership, use Table 2 to compute your factors, applying the rules shown below (see Title 18, Cal. Code Reg. Section 25137-1 for examples). Partners that are unitary with the partnership should perform the following steps:

1. Combine your distributive share of the partnership's business income with your own business income to determine total business income.
2. Compute property, payroll, and sales factors by combining the partnership's factors from Table 2, Part C, with your own factors as explained below.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

### **1. Unitary Partner's Computation of Property Factor**

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Title 18, Cal. Code Reg. Sections 25130 and 25131. Also apply the following special rules:

- A. Include in the denominator of your property factor your distributive share of the partnership's beginning and ending balances of real and tangible personal property owned (if rented, multiply by 8) and used during the tax accounting period in the regular course of business. See Table 2, Part C.
- B. Include in the numerator of your property factor the value of such property that is described in 1A (above) that is located in California. See Table 2, Part C.
- C. See Title 18, Cal. Code Reg. Section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the partner to the partnership or vice versa.

### **2. Unitary Partner's Computation of Payroll Factor**

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Title 18, Cal. Code Reg. Sections 25132 and 25133. Apply the following special rules:

- A. Include in the denominator of your payroll factor your distributive share of the partnership's payroll used to produce business income. See Table 2, Part C; and
- B. Include in the numerator any such payroll described in 2A that is applicable to California. See Table 2, Part C.

### **3. Unitary Partner's Computation of the Sales Factor**

Compute the numerator and denominator of the sales factor in accordance with Title 18, Cal. Code Reg. Sections 25134 to 25136. Apply the following special rules:

- A. Include in the denominator of the sales factor your distributive share of the partnership's sales that give rise to business income. See Table 2, Part C;
- B. Include in the numerator of your sales factor the amount of such sales described in 3A attributable to California; and
- C. Eliminate intercompany sales as follows:

- Sales by the partner to the partnership to the extent of the partner's interest in the partnership; or
- Sales by the partnership to the partner not to exceed the partner's interest in all partnership sales (see Title 18, Cal. Code Reg. Section 25137-1(f)(3)).

**Distributive Items of Nonbusiness Income for a Unitary Partner**  
Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Because Schedule K-1 (565), column (e) data is not utilized by a unitary partner, unitary partners must make certain to separately include such items as California source income.

## Specific Instructions

### A Questions and Items

The partnership completes the questions and items on the Schedule K-1 (565) for all partners. For more information, see the instructions for federal Schedule K-1 (1065).

### B Schedule K-1 (565)

**Important Note to Partners:** If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis, at-risk, and the passive activity loss limitations before such losses/deductions can be deducted on your California return. See Specific Instructions C, Loss Limitations. Also, see IRC Section 705(a) for information on how to compute basis.

**Note:** If your return is ever examined, you may be required to provide your computations and the supporting documents for your partnership interest.

If you are an individual partner, the amounts in column (c), Adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; such as, Schedule D, California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments—Residents, or Schedule CA (540NR), California Adjustments—Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the partnership knows that you are a California resident it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual partner, report the amounts as instructed on your California return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis. See the instructions for, federal Schedule K-1 (1065) for more information.

### C Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (565) reflect your distributive share of income or loss from the partnership's business or rental operations. If you have losses from the partnership, you should be aware that there are three potential limitations imposed on losses before you may deduct losses on your tax return. These limitations and the order in which they must be applied are:

- Basis limitations (IRC Section 704);
- At-risk limitations (IRC Section 465); and
- Passive activity loss and credit limitations (IRC Section 469).

Each of these limitations are discussed separately below.

**Note:** Other limitations may apply to specific deductions such as the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.

#### Basis Rules

Generally, California tax law conforms to federal tax law concerning basis limitations. You may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

The partnership is not responsible for keeping the information needed to compute the basis of your partnership interest. Although the partnership does provide you with an analysis of the changes to your capital account on your Schedule K-1 (565), Item J, that information is based on the partnership's books and records and should not be used to compute your basis.

You can compute the basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis may include:

- Money and the adjusted basis of property you contributed to the partnership;
- Your distributive share of the partnership's income; and
- Your distributive share of the increase in the liabilities of the partnership (and/or your individual liabilities caused by your assumption of partnership liabilities).

Items that decrease your basis, but not below zero, may include:

- Money and the adjusted basis of property distributed to you;
- Your share of the partnership's losses; and
- Your share of the decrease in the liabilities of the partnership (and/ or your individual liabilities assumed by the partnership).

**Note:** This is not a complete list of items and factors that determine basis. Get federal Publication 541 for a complete discussion of how to determine the basis of your partnership interest.

#### At-Risk Rules

The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as IRC Section 179, R&TC Sections 17267.2, 17267.6, and 17268 deduction) that you can claim to the amount you could actually lose in the activity.

If you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

See the instructions for federal Schedule K-1 (1065), At-Risk Limitations, and federal Publication 925, Passive Activity and At-Risk Rules, for more information.

#### Passive Activity Loss and Credit Rules

IRC Section 469 limits the deduction of certain losses and credits. California law generally conforms to this federal provision. These rules apply to partners who have a passive activity loss or credit for the taxable year.

For California purposes, the passive loss limitations apply to:

1. Individuals;
2. Estates;
3. Trusts (other than grantor trusts);
4. Closely held corporations; and
5. S Corporations.

Even though the passive loss rules do not apply to grantor trusts, partnerships, and limited liability companies, they do apply to the owners of these entities.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental real estate activity in

which the partner does not actively participate. A partnership may have more than one activity. Each partner must apply the passive activity loss and credit limitations on an activity-by-activity basis.

Individuals, estates and trusts, and S corporations must complete form FTB 3801 to calculate the allowable passive losses, and form FTB 3801-CR to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (565), line 1 and line 14 are normally passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on Schedule K-1 (565), line 2, line 3, and line 13b are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

The passive loss rules apply separately to the items attributable to each publicly traded partnership (PTP) that is not treated as a corporation under IRC Section 7704. Thus, partners who do not materially participate in the operations of a PTP are allowed to deduct their share of the PTP's losses only to the extent of passive income from the same PTP or when the entire interest is sold (IRC Section 469(k)). See the instructions for form FTB 3801 and form FTB 3802 for the rules to calculate and report income, gains, and losses from passive activities that you held through each PTP you owned during the tax year.

See the instructions for federal Schedule K-1 (1065), Passive Activity Limitations, and federal Publication 925 for more information.

## D Investment Partnership Income

If you are a nonresident individual, the amounts in column (e) will generally not be taxable by California (R&TC Section 17955). However, nonresident individuals will be taxed on their distributive share of California source income from an investment partnership if the income from the qualifying investment securities is interrelated with:

- Any other business activity of the nonresident partner; or
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

If you are a corporate partner, the amounts in column (e) will also generally not be taxable in California provided the income from the partnership is the corporation's only California source income. However, if the corporation:

- Participates in the management of the investment activities of the partnership or is engaged in a unitary business with another corporation, or partnership that participates in the management of the investment activities of the partnership; or
- Has income attributable to sources within California other than income from the investment partnership;

Then the corporation will be taxable on its distributive share of California source income of the partnership. See R&TC Section 23040.1 for more information.

## Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), if you are a resident; or on Schedule CA (540NR), if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column E.

**G(1)** – If this box is checked, the partnership is a PTP as defined in IRC Section 469(k)(2). Follow the instructions for form FTB 3801 or form FTB 3802 for reporting income, gains, and losses from PTPs.

**G(2)** – If this box is checked, the partnership is an investment partnership as defined in R&TC Sections 17955 and 23040.1. If you

are a nonresident individual, the amounts in column (e) will generally not be taxable in California. See Specific Line Instructions D for additional information.

**Note to Nonresident Partners:** The specific line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident partners should take information from columns (c), (d), and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

## A Income (Loss)

### Line 1 –Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, where this amount is reported depends on whether or not this amount is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

**Note:** If the partnership has income from activities both within and outside California, the amount nonresidents or corporate partners must report on their California returns is a function of the partnership's apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the partnership. See Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 for more information. In addition, see General Information E.

### Line 2 –Net Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special \$25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 or form FTB 3802 for more information.

See the federal Schedule K-1 (1065) Specific Instructions for line 2, item 1, and item 2 for more information.

**Note:** If you are a qualified investor reporting a qualified low-income housing project loss, report any California adjustment amount from column (c) on Schedule CA (540 or 540NR).

- If you have only income on line 2, column (d), and no other passive losses, enter any California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801 or form FTB 3802.

### Line 3 –Net Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801 or form FTB 3802.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from



column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801 or form FTB 3802.

#### **Line 4a through Line 4e –Portfolio Income (Loss)**

Portfolio income (loss) referred to as “portfolio” in these instructions is generally not subject to the passive activity limitations of IRC Section 469. Portfolio income includes interest, dividend, royalty income and gain or loss on the sale of property held for investment. If you have amounts on Schedule K-1 (565), line 4a through line 4e, report these amounts as follows:

- Line 4a, column (c) –Report on Schedule CA (540 or 540NR), line 8, column B or column C, whichever is applicable;
- Line 4b, column (c) –Report on Schedule CA (540 or 540NR), line 9, column B or column C, whichever is applicable;
- Line 4c, column (c) –Report on Schedule CA (540 or 540NR), line 17, column B or column C, whichever is applicable;
- Line 4d, column (d) –Report on Schedule D; and
- Line 4e, column (d) –Report on applicable schedule.

**Caution:** Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). However, if an amount reported on line 4d or line 4e, column (d) is a passive activity amount, the partnership should identify the amount.

The partnership uses line 4e, column (d), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. The partnership should attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 4e, column (d). An example of portfolio income that could be reported on line 4e, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report your share of REMIC taxable income (net loss) on the schedule. Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of “excess inclusion” and your share of IRC Section 212 expenses. If you itemize your deductions on federal Schedule A (1040), you may deduct these IRC Section 212 expenses as a miscellaneous deduction.

#### **Line 5 –Guaranteed Payments to Partners**

Amounts on this line are not normally part of a passive activity. If there is an amount on Schedule K-1 (565), line 5, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable.

#### **Line 6 –Net Gain (Loss) Under IRC Section 1231 (Other Than Due to Casualty or Theft)**

If the amount on line 6 relates to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amount relates to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount, report it on Schedule D-1, line 2, column (g). You do not have to complete column (b) through column (g). Write “From Schedule K-1 (565)” across these columns.
- If a gain is reported on line 6, column (d), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (h), and be sure to see “Passive Loss Limitations” in the instructions for Schedule D-1.
- If a loss is reported on line 6, column (d), and it is a passive activity amount, see “Passive Loss Limitations” in the instructions for Schedule D-1. You must use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

#### **Line 7 –Other Income (Loss)**

Amounts reported on this line are other items of income (loss) not included on line 1 through line 6. The partnership should give you a description for each of these items.

Use the instructions below to:

- Report income or gain (not losses) from passive activities; or
- Report income, gain, or losses from all other passive activities.

If you have losses from passive activities, or a combination of income, gains, and losses from passive activities, you must first complete form FTB 3801 or form FTB 3802 to determine if any of your losses are limited by the passive loss rules. Use the instructions below to report passive income and losses after the passive loss limitations have been computed.

Line 7 items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable;
- Gains and losses from wagering (IRC Section 165(d)). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable;
- Any income, gain, or loss to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain or loss. Report this amount on Schedule D-1, line 10;
- Net gain or loss from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii), and column (c); and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5 and issued after August 10, 1993). Also, the name of the corporation that issued the stock and the adjusted basis of that stock should be reported on the attachment to Schedule K (565) and Schedule K-1 (565). Any differences between IRC Section 1202 and R&TC Section 18152.5 should be included on line 7, column (c).

## **B Deductions**

#### **Line 8 –Charitable Contributions**

The partnership will provide a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. See the instructions for federal Form 1040 for more information.

If there is an amount on Schedule K-1 (565), line 8, column (c), enter this amount on Schedule CA (540 or 540NR), line 38.

#### **Line 9 –Expense Deduction for Recovery Property**

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is \$20,000. The \$20,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000.

The partnership will provide information on your share of the IRC Section 179 deduction and of the cost of the partnership’s IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments, and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (565), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, whichever is applicable.

Refer to R&TC Sections 17267.2, 17267.6, and 17268 on how to figure the expense deduction for recovery property in an economic development area.

#### **Line 10 –Deductions Related to Portfolio Income**

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest

expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 10, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, as applicable. If any of the line 10 amount should not be reported on Schedule CA (540 or 540NR), the partnership should identify these amounts.

#### **Line 11 –Other Deductions**

Amounts on this line are deductions not included on line 8 through line 10. If there is an amount on Schedule K-1 (565), line 11, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

See the instructions for federal Schedule K-1 (1065), line 11, for examples of other deductions. Also see FTB Pub. 1001 for differences between federal and California tax law for certain deductions.

### **C Investment Interest**

If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

#### **Line 12a –Interest Expense on Investment Debts**

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

#### **Line 12b(1) & Line 12b(2) –Investment Income and Investment Expenses**

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 1.

**Caution:** The amounts shown on line 12b(1) and line 12b(2) include only investment income and expenses included on lines 4a, 4b, 4c, 4e, and line 10 of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 12b(1) and line 12b(2) to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 1.

### **D Credits**

If you have credits that are passive activity credits complete form FTB 3801-CR (use form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

#### **Line 13a(1) –Withholding on Partnership Allocated to All Partners**

If taxes were withheld from payments to the partnership by another entity, this withholding is allocated to all partners according to their respective interests in the partnership. Your share is entered on line 13a(1).

#### **Line 13a(2) –Partnership Withholding on Nonresident Partners**

If taxes were withheld-at-source on you as a domestic or foreign nonresident partner, the amount of the withholding is entered on line 13a(2).

#### **Line 13a(3) –Total Withholding**

Add together the amounts (if any) on line 13a(1) and line 13a(2) to get the total amount of withholding credit you have for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide a completed Form 592-B, Nonresident Withholding Tax

Statement. Attach Form 592-B to the front of your California return to claim the amount withheld. The amount shown on Form 592-B should be claimed on:

- Form 540, California Resident Income Tax Return, line 38; or
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 47; or
- Form 541, California Fiduciary Income Tax Return, line 28; or
- Form 109, California Exempt Organization Business Income Tax Return, line 22; or
- Form 100, California Corporation Franchise or Income Tax Return, line 35; or
- Form 100S, California S Corporation Franchise or Income Tax Return, line 35.

Schedule K-1 (565) may not be used to claim the withholding credit. If the partnership is not on a calendar year, the amount on line 13a(3) may not match the amount on Form 592-B because of the difference in accounting periods.

#### **Line 13b –Low-Income Housing Credit**

Your share of the partnership's low-income housing credit is shown on line 13b, column (d). Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit. Credits from passive activities are generally limited to tax attributable to passive activities.

**Caution:** You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under IRC Section 502 of the Tax Reform Act of 1986.

#### **Line 13c –Other Credits Related to Rental Real Estate Activities**

If applicable, the partnership will use this line, through an attached schedule, to provide the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

#### **Line 13d –Credits Related to Other Rental Activities**

If applicable, the partnership will use this line, through an attached schedule, to provide the information you need to compute credits related to rental activities other than rental real estate activities.

#### **Line 14 –Other Credits**

If applicable, the partnership will use this line, through an attached schedule, to provide the information you need to compute credits related to a trade or business activity.

Credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Employer Child Care Program/Contribution. Get form FTB 3501.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring and Sales or Use Tax Credit. Get form FTB 3805Z.
- Farmworker Housing Credit-Construction Credit. Use credit code 207.
- Farmworker Housing Credit-Loan. Use credit code 208.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax Credits. Get form FTB 3807.
- Manufacturers' Investment Credit. Get form FTB 3535.
- Manufacturing Enhancement Area (MEA) Hiring Credit. Get form FTB 3808.
- Natural Heritage Preservation Tax Credit. Get form FTB 3503.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.
- Rice Straw Credit. Use credit code 206.

- Salmon and Steelhead Trout Habitat Restoration Credit. Use credit code 200.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax Credits. Get form FTB 3809.

**Note:** The passive activity limitations of IRC Section 469 may limit the amount of credits on line 13b, line 13c, line 13d, and line 14. Line 13b, line 13c, and line 13d credits are related to the rental activities of the partnership. Line 14 credits are related to the trade or business activities of the partnership. In general, passive activity credits from passive activities are limited to tax attributable to passive activities for California purposes (R&TC Section 17561). Credits that may be limited under the passive activity credit rules are the:

- Research credit; and
- Low-income housing credit.

You may be able to use the low-income housing credit, and other credits generated from rental activities, against tax on other income. See form FTB 3801-CR for more information.

The partnership has included on line 14 your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Schedule S for more information.

**Reminder:** All of these forms and many others are available on our website. Our website address is: [www.ftb.ca.gov](http://www.ftb.ca.gov)

## E Adjustments and Tax Preference Items

### Line 15a through Line 15e col. (d)

Use the information reported on line 15a through line 15e, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (540), Alternative Minimum Tax and Credit Limitations—Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations—Nonresidents or Part-Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations—Fiduciaries; or Schedule P (100), Alternative Minimum Tax and Credit Limitations—Corporations. For additional information, see the instructions for federal Schedule K-1 (1065), Adjustments and Tax Preference Items, line 16a through line 16e.

## F Other

### Line 16 through Line 19

See the instructions for federal Schedule K-1 (1065), Other, line 18 through line 21. The partnership should give you a description and the amount of your share for each item applicable to California in this category.

### Line 22—Supplemental Information

The partnership will provide supplemental information required to be reported to you on this line. If the partnership is claiming tax benefits from an EZ, LARZ, LAMBRA, MEA, or TTA it will give you the business income and business capital gains and losses apportioned to the EZ, LARZ, LAMBRA, MEA, or TTA on this line. Get form FTB 3805Z, FTB 3806, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit.

The partnership may have provided an amount showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances on this line. A qualified taxpayer may exclude income, positive and negative adjustments, and preference items attributable to any trade or business from alternative minimum taxable income. "Qualified taxpayer" means a taxpayer that meets both of the following:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 during the taxable year from all trades or businesses in which the taxpayer is an owner or has an ownership

interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, limited liability company (LLC), S corporation, regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

You need to add your share of the aggregate gross receipts from this partnership to your aggregate gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of:

- The gross receipts of the trades or businesses which the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; or
- The proportional interest of pass-through entities gross receipts in which the taxpayer holds an interest. "Gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section, "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a RIC, a REIT, and a REMIC. See R&TC Section 17062 for more information.

See the instructions for federal Schedule K-1 (1065), line 25, for examples of supplemental information to be reported here. Also, see FTB Pub. 1001 for a listing of items of nonconformity for individuals.

## G Table 1

Generally, nonbusiness interest and dividends are sourced to the state of residence for nonapportioning individuals. Nonapportioning means doing business entirely within California. For more information regarding the sourcing of intangibles, see R&TC Section 17952.

For apportioning partners, nonbusiness interest and dividends generally are allocable to California if the taxpayer's commercial domicile is California. For information regarding sourcing of intangibles for apportioning taxpayers, see R&TC Sections 25126 and 25127.

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1 (565). For additional information, see General Information E.

## H Table 2

The final determination of unity is made at the partner level.

If the partner and the partnership are engaged in a single unitary business or if the partnership is uncertain as to whether it is unitary with the partner, the partnership will furnish the information in Table 2.

The partner's share of the partnership's business income is entered on Table 2, Part A. The partner then adds that income to its own business income and apportions the combined business income using the revised factor described below.

Table 2, Part B reflects the partner's share of nonbusiness income from real and tangible property wholly sourced or allocable to California. This is added to apportioned business income and nonbusiness intangible income allocated to California and becomes a part of California taxable income. For more information on sourcing intangibles, see R&TC Sections 25124 and 25125, and Title 18, Cal. Code Reg. Sections 17951-1, 17951-2, and 17951-3.

The partner's share of the partnership's property, payroll, and sales factors is in Table 2, Part C. The partner combines its apportionment factors with the apportionment factors of the partnership and uses the revised factor to compute its business income apportioned to California. For further information, see General Information E.

---

**THIS PAGE INTENTIONALLY LEFT BLANK**

---

**visit our website:**

**[www.ftb.ca.gov](http://www.ftb.ca.gov)**

## Form 565

### Codes for Principal Business Activity

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning on or after January 1, 1998, these principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the partnership derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales plus all other income. If the partnership purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the partnership is considered a manufacturer and must use one of the manufacturing codes (31110-33990).

Once the principal business activity is determined, entries must be made on Form 565, Question C. For the business activity code number, enter the six-digit code selected from the list below. On the next line enter a brief description of the partnership's business activity. Finally, enter a description of the principal product or service of the partnership on the next line.

#### Agriculture, Forestry, Fishing, and Hunting

##### Code

##### Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

##### Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

##### Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

##### Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

##### Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities for Forestry

##### Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory

##### Minerals Mining & Quarrying

- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

##### Utilities

- 221100 Electric Power Generation, Transmission & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage, & Other Systems

#### Construction

##### Code

##### Building, Developing, and General Contracting

- 233110 Land Subdivision & Land Development
- 233200 Residential Building Construction
- 233300 Nonresidential Building Construction

##### Heavy Construction

- 234100 Highway, Street, Bridge, & Tunnel Construction
- 234900 Other Heavy Construction

##### Special Trade Contractors

- 235110 Plumbing, Heating, & Air-Conditioning Contractors
- 235210 Painting & Wall Covering Contractors
- 235310 Electrical Contractors
- 235400 Masonry, Drywall, Insulation, & Tile Contractors
- 235500 Carpentry & Floor Contractors
- 235610 Roofing, Siding, & Sheet Metal Contractors
- 235710 Concrete Contractors
- 235810 Water Well Drilling Contractors
- 235900 Other Special Trade Contractors

#### Manufacturing

##### Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

##### Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

##### Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

##### Apparel Manufacturing

- 315100 Apparel Knitting Mills
- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg

##### Code

- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

##### Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

##### Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

##### Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

##### Printing and Related Support Activities

- 323100 Printing & Related Support Activities

##### Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

##### Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

##### Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

##### Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

##### Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

##### Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg
- 332810 Coating, Engraving, Heat Treating, & Allied Activities

##### Code

- 332900 Other Fabricated Metal Product Mfg

##### Machinery Manufacturing

- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

##### Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

##### Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

##### Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

##### Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

##### Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

#### Wholesale Trade

##### Wholesale Trade, Durable Goods

- 421100 Motor Vehicle & Motor Vehicle Parts & Supplies Wholesalers
- 421200 Furniture & Home Furnishing Wholesalers
- 421300 Lumber & Other Construction Materials Wholesalers
- 421400 Professional & Commercial Equipment & Supplies Wholesalers
- 421500 Metal & Mineral (except Petroleum) Wholesalers
- 421600 Electrical Goods Wholesalers
- 421700 Hardware & Plumbing & Heating Equipment & Supplies Wholesalers
- 421800 Machinery, Equipment, & Supplies Wholesalers
- 421910 Sporting & Recreational Goods & Supplies Wholesalers
- 421920 Toy & Hobby Goods & Supplies Wholesalers
- 421930 Recyclable Material Wholesalers
- 421940 Jewelry, Watch, Precious Stone, & Precious Metal Wholesalers
- 421990 Other Miscellaneous Durable Goods Wholesalers

Code		Code		Code		Code	
<b>Wholesale Trade, Nondurable Goods</b>		<b>Clothing and Clothing Accessories Stores</b>		<b>Support Activities for Transportation</b>		<b>Securities &amp; Commodity Exchanges</b>	
422100	Paper & Paper Product Wholesalers	448110	Men's Clothing Stores	488100	Support Activities for Air Transportation	523210	Other Financial Investment Activities (including portfolio management & investment advice)
422210	Drugs & Druggists' Sundries Wholesalers	448120	Women's Clothing Stores	488210	Support Activities for Rail Transportation	<b>Insurance Carriers and Related Activities</b>	
422300	Apparel, Piece Goods, & Notions Wholesalers	448130	Children's & Infants' Clothing Stores	488300	Support Activities for Water Transportation	524140	Direct Life, Health, & Medical Insurance & Reinsurance Carriers
422400	Grocery & Related Product Wholesalers	448140	Family Clothing Stores	488410	Motor Vehicle Towing	524150	Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
422500	Farm Product Raw Material Wholesalers	448150	Clothing Accessories Stores	488490	Other Support Activities for Road Transportation	524210	Insurance Agencies & Brokerages
422600	Chemical & Allied Products Wholesalers	448190	Other Clothing Stores	488510	Freight Transportation Arrangement	524290	Other Insurance Related Activities
422700	Petroleum & Petroleum Products Wholesalers	448210	Shoe Stores	488990	Other Support Activities for Transportation	<b>Funds, Trusts, and Other Financial Vehicles</b>	
422800	Beer, Wine, & Distilled Alcoholic Beverage Wholesalers	448310	Jewelry Stores	<b>Couriers and Messengers</b>		525100	Insurance & Employee Benefit Funds
422910	Farm Supplies Wholesalers	448320	Luggage & Leather Goods Stores	492110	Couriers	525910	Open-End Investment Funds (Form 1120-RIC)
422920	Book, Periodical, & Newspaper Wholesalers	<b>Sporting Goods, Hobby, Book, and Music Stores</b>		492210	Local Messengers & Local Delivery	525920	Trusts, Estates, & Agency Accounts
422930	Flower, Nursery Stock, & Florists' Supplies Wholesalers	451110	Sporting Goods Stores	<b>Warehousing and Storage</b>		525930	Real Estate Investment Trusts (Form 1120-REIT)
422940	Tobacco & Tobacco Product Wholesalers	451120	Hobby, Toy, & Game Stores	493100	Warehousing & Storage (except lessors of miniwarehouses & self-storage units)	525990	Other Financial Vehicles
422950	Paint, Varnish, & Supplies Wholesalers	451130	Sewing, Needlework, & Piece Goods Stores	<b>Information</b>		<b>Real Estate and Rental and Leasing</b>	
422990	Other Miscellaneous Nondurable Goods Wholesalers	451140	Musical Instrument & Supplies Stores	<b>Publishing Industries</b>		<b>Real Estate</b>	
<b>Retail Trade</b>		451211	Book Stores	511110	Newspaper Publishers	531110	Lessors of Residential Buildings & Dwellings
<b>Motor Vehicle and Parts Dealers</b>		451212	News Dealers & Newsstands	511120	Periodical Publishers	531120	Lessors of Nonresidential Buildings (except Miniwarehouses)
441110	New Car Dealers	451220	Prerecorded Tape, Compact Disc, & Record Stores	511130	Book Publishers	531130	Lessors of Miniwarehouses & Self-Storage Units
441120	Used Car Dealers	<b>General Merchandise Stores</b>		511140	Database & Directory Publishers	531190	Lessors of Other Real Estate Property
441210	Recreational Vehicle Dealers	452110	Department stores	511190	Other Publishers	531210	Offices of Real Estate Agents & Brokers
441221	Motorcycle Dealers	452900	Other General Merchandise Stores	511210	Software Publishers	531310	Real Estate Property Managers
441222	Boat Dealers	<b>Miscellaneous Store Retailers</b>		<b>Motion Picture and Sound Recording Industries</b>		531320	Offices of Real Estate Appraisers
441229	All Other Motor Vehicle Dealers	453110	Florists	512100	Motion Picture & Video Industries (except video rental)	531390	Other Activities Related to Real Estate
441300	Automotive Parts, Accessories, & Tire Stores	453210	Office Supplies & Stationery Stores	512200	Sound Recording Industries	<b>Rental and Leasing Services</b>	
<b>Furniture and Home Furnishings Stores</b>		453220	Gift, Novelty, & Souvenir Stores	<b>Broadcasting and Telecommunications</b>		532100	Automotive Equipment Rental & Leasing
442110	Furniture Stores	453310	Used Merchandise Stores	513100	Radio & Television Broadcasting	532210	Consumer Electronics & Appliances Rental
442210	Floor Covering Stores	453910	Pet & Pet Supplies Stores	513200	Cable Networks & Program Distribution	532220	Formal Wear & Costume Rental
442291	Window Treatment Stores	453920	Art Dealers	513300	Telecommunications (including paging, cellular, satellite, & other telecommunications)	532230	Video Tape & Disc Rental
442299	All Other Home Furnishings Stores	453930	Manufactured (Mobile) Home Dealers	<b>Information Services and Data Processing Services</b>		532290	Other Consumer Goods Rental
<b>Electronics and Appliance Stores</b>		453990	All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)	514100	Information Services (including news syndicates, libraries, & online information services)	532310	General Rental Centers
443111	Household Appliance Stores	<b>Nonstore Retailers</b>		514210	Data Processing Services	532400	Commercial & Industrial Machinery & Equipment Rental & Leasing
443112	Radio, Television, & Other Electronics Stores	454110	Electronic Shopping & Mail-Order Houses	<b>Finance and Insurance</b>		<b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b>	
443120	Computer & Software Stores	454210	Vending Machine Operators	<b>Depository Credit Intermediation</b>		533110	Lessors of Nonfinancial Intangible Assets (except copyrighted works)
443130	Camera & Photographic Supplies Stores	454311	Heating Oil Dealers	522110	Commercial Banking	<b>Professional, Scientific, and Technical Services</b>	
<b>Building Material and Garden Equipment and Supplies Dealers</b>		454312	Liquefied Petroleum Gas (Bottled Gas) Dealers	522120	Savings Institutions	<b>Legal Services</b>	
444110	Home Centers	454319	Other Fuel Dealers	522130	Credit Unions	541110	Offices of Lawyers
444120	Paint & Wallpaper Stores	454390	Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	522190	Other Depository Credit Intermediation	541190	Other Legal Services
444130	Hardware Stores	<b>Transportation and Warehousing</b>		<b>Nondepository Credit Intermediation</b>		<b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b>	
444190	Other Building Material Dealers	<b>Air, Rail, and Water Transportation</b>		522210	Credit Card Issuing	541211	Offices of Certified Public Accountants
444200	Lawn & Garden Equipment & Supplies Stores	481000	Air Transportation	522220	Sales Financing	541213	Tax Preparation Services
<b>Food and Beverage Stores</b>		482110	Rail Transportation	522291	Consumer Lending	541214	Payroll Services
445110	Supermarkets and Other Grocery (except Convenience) Stores	483000	Water Transportation	522292	Real Estate Credit (including mortgage bankers & originators)	541219	Other Accounting Services
445120	Convenience Stores	<b>Truck Transportation</b>		522293	International Trade Financing	<b>Architectural, Engineering, and Related Services</b>	
445210	Meat Markets	484120	General Freight Trucking, Long-distance	522294	Secondary Market Financing	541310	Architectural Services
445220	Fish & Seafood Markets	484200	Specialized Freight Trucking	522298	All Other Nondepository Credit Intermediation	541320	Landscape Architecture Services
445230	Fruit & Vegetable Markets	<b>Transit and Ground Passenger Transportation</b>		<b>Activities Related to Credit Intermediation</b>		541330	Engineering Services
445291	Baked Goods Stores	485110	Urban Transit Systems	522300	Activities Related to Credit Intermediation (including loan brokers)	541340	Drafting Services
445292	Confectionery & Nut Stores	485210	Interurban & Rural Bus Transportation	<b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b>		541350	Building Inspection Services
445299	All Other Specialty Food Stores	485310	Taxi Service	523110	Investment Banking & Securities Dealing		
445310	Beer, Wine, & Liquor Stores	485320	Limousine Service	523120	Securities Brokerage		
<b>Health and Personal Care Stores</b>		485410	School & Employee Bus Transportation	523130	Commodity Contracts Dealing		
446110	Pharmacies & Drug Stores	485510	Charter Bus Industry	523140	Commodity Contracts Brokerage		
446120	Cosmetics, Beauty Supplies, & Perfume Stores	485990	Other Transit & Ground Passenger Transportation				
446130	Optical Goods Stores	<b>Pipeline Transportation</b>					
446190	Other Health & Personal Care Stores	486000	Pipeline Transportation				
<b>Gasoline Stations</b>		<b>Scenic &amp; Sightseeing Transportation</b>					
447100	Gasoline Stations (including convenience stores with gas)	487000	Scenic & Sightseeing Transportation				

<p><b>Code</b></p> <p>541360 Geophysical Surveying &amp; Mapping Services</p> <p>541370 Surveying &amp; Mapping (except Geophysical) Services</p> <p>541380 Testing Laboratories</p> <p><b>Specialized Design Services</b></p> <p>541400 Specialized Design Services (including interior, industrial, graphic, &amp; fashion design)</p> <p><b>Computer Systems Design and Related Services</b></p> <p>541511 Custom Computer Programming Services</p> <p>541512 Computer Systems Design Services</p> <p>541513 Computer Facilities Management Services</p> <p>541519 Other Computer Related Services</p> <p><b>Other Professional, Scientific, and Technical Services</b></p> <p>541600 Management, Scientific, &amp; Technical Consulting Services</p> <p>541700 Scientific Research &amp; Development Services</p> <p>541800 Advertising &amp; Related Services</p> <p>541910 Marketing Research &amp; Public Opinion Polling</p> <p>541920 Photographic Services</p> <p>541930 Translation &amp; Interpretation Services</p> <p>541940 Veterinary Services</p> <p>541990 All Other Professional, Scientific, &amp; Technical Services</p> <p><b>Management of Companies (Holding Companies)</b></p> <p>551111 Offices of Bank Holding Companies</p> <p>551112 Offices of Other Holding Companies</p>	<p><b>Code</b></p> <p>561500 Travel Arrangement &amp; Reservation Services</p> <p>561600 Investigation &amp; Security Services</p> <p>561710 Exterminating &amp; Pest Control Services</p> <p>561720 Janitorial Services</p> <p>561730 Landscaping Services</p> <p>561740 Carpet &amp; Upholstery Cleaning Services</p> <p>561790 Other Services to Buildings &amp; Dwellings</p> <p>561900 Other Support Services (including packaging &amp; labeling services, &amp; convention &amp; trade show organizers)</p> <p><b>Waste Management and Remediation Services</b></p> <p>562000 Waste Management &amp; Remediation Services</p> <p><b>Educational Services</b></p> <p>611000 Educational Services (including schools, colleges, &amp; universities)</p> <p><b>Health Care and Social Assistance</b></p> <p><b>Offices of Physicians and Dentists</b></p> <p>621111 Offices of Physicians (except mental health specialists)</p> <p>621112 Offices of Physicians, Mental Health Specialists</p> <p>621210 Offices of Dentists</p> <p><b>Offices of Other Health Practitioners</b></p> <p>621310 Offices of Chiropractors</p> <p>621320 Offices of Optometrists</p> <p>621330 Offices of Mental Health Practitioners (except Physicians)</p> <p>621340 Offices of Physical, Occupational &amp; Speech Therapists, &amp; Audiologists</p> <p>621391 Offices of Podiatrists</p> <p>621399 Offices of All Other Miscellaneous Health Practitioners</p> <p><b>Outpatient Care Centers</b></p> <p>621410 Family Planning Centers</p> <p>621420 Outpatient Mental Health &amp; Substance Abuse Centers</p> <p>621491 HMO Medical Centers</p> <p>621492 Kidney Dialysis Centers</p> <p>621493 Freestanding Ambulatory Surgical &amp; Emergency Centers</p> <p>621498 All Other Outpatient Care Centers</p> <p><b>Medical and Diagnostic Laboratories</b></p> <p>621510 Medical &amp; Diagnostic Laboratories</p> <p><b>Home Health Care Services</b></p> <p>621610 Home Health Care Services</p>	<p><b>Code</b></p> <p><b>Other Ambulatory Health Care Services</b></p> <p>621900 Other Ambulatory Health Care Services (including ambulance services &amp; blood &amp; organ banks)</p> <p><b>Hospitals</b></p> <p>622000 Hospitals</p> <p><b>Nursing and Residential Care Facilities</b></p> <p>623000 Nursing &amp; Residential Care Facilities</p> <p><b>Social Assistance</b></p> <p>624100 Individual &amp; Family Services</p> <p>624200 Community Food &amp; Housing, &amp; Emergency &amp; Other Relief Services</p> <p>624310 Vocational Rehabilitation Services</p> <p>624410 Child Day Care Services</p> <p><b>Arts, Entertainment, and Recreation</b></p> <p><b>Performing Arts, Spectator Sports, and Related Industries</b></p> <p>711100 Performing Arts Companies</p> <p>711210 Spectator Sports (including sports clubs &amp; racetracks)</p> <p>711300 Promoters of Performing Arts, Sports, &amp; Similar Events</p> <p>711410 Agents &amp; Managers for Artists, Athletes, Entertainers, &amp; Other Public Figures</p> <p>711510 Independent Artists, Writers, &amp; Performers</p> <p><b>Museums, Historical Sites, and Similar Institutions</b></p> <p>712100 Museums, Historical Sites, &amp; Similar Institutions</p> <p><b>Amusement, Gambling, and Recreation Industries</b></p> <p>713100 Amusement Parks &amp; Arcades</p> <p>713200 Gambling Industries</p> <p>713900 Other Amusement &amp; Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, &amp; bowling centers)</p>	<p><b>Code</b></p> <p><b>Food Services and Drinking Places</b></p> <p>722110 Full-Service Restaurants</p> <p>722210 Limited-Service Eating Places</p> <p>722300 Special Food Services (including food service contractors &amp; caterers)</p> <p>722410 Drinking Places (Alcoholic Beverages)</p> <p><b>Other Services</b></p> <p><b>Repair and Maintenance</b></p> <p>811110 Automotive Mechanical &amp; Electrical Repair &amp; Maintenance</p> <p>811120 Automotive Body, Paint, Interior, &amp; Glass Repair</p> <p>811190 Other Automotive Repair &amp; Maintenance (including oil change &amp; lubrication shops &amp; car washes)</p> <p>811210 Electronic &amp; Precision Equipment Repair &amp; Maintenance</p> <p>811310 Commercial &amp; Industrial Machinery &amp; Equipment (except Automotive &amp; Electronic) Repair &amp; Maintenance</p> <p>811410 Home &amp; Garden Equipment &amp; Appliance Repair &amp; Maintenance</p> <p>811420 Reupholstery &amp; Furniture Repair</p> <p>811430 Footwear &amp; Leather Goods Repair</p> <p>811490 Other Personal &amp; Household Goods Repair &amp; Maintenance</p> <p><b>Personal and Laundry Services</b></p> <p>812111 Barber Shops</p> <p>812112 Beauty Salons</p> <p>812113 Nail Salons</p> <p>812190 Other Personal Care Services (including diet &amp; weight reducing centers)</p> <p>812210 Funeral Homes &amp; Funeral Services</p> <p>812220 Cemeteries &amp; Crematories</p> <p>812310 Coin-Operated Laundries &amp; Drycleaners</p> <p>812320 Drycleaning &amp; Laundry Services (except Coin-Operated)</p> <p>812330 Linen &amp; Uniform Supply</p> <p>812910 Pet Care (except Veterinary) Services</p> <p>812920 Photofinishing</p> <p>812930 Parking Lots &amp; Garages</p> <p>812990 All Other Personal Services</p> <p><b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b></p> <p>813000 Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations</p>
--	--	--	---

# How to Get California Tax Information

## General Toll-Free Phone Service

**Between January 2 –April 16, 2001**, our general toll-free phone service is available:

- Monday –Friday, 6 a.m. until midnight; and
- Saturdays and holidays, 7 a.m. until 4 p.m.

**After April 16, 2001**, our general toll-free phone service is available:

- Monday –Friday, 7 a.m. until 8 p.m.; and
- Saturdays, 7 a.m. until 4 p.m.

**Note:** We may modify these hours to meet operational needs.

From within the United States ..... (800) 852-5711  
From outside the United States ..... (916) 845-6500  
(not toll-free)

### For federal tax questions

Call the IRS at ..... (800) 829-1040

### Assistance for persons with disabilities

The Franchise Tax Board complies with provisions of the Americans with Disabilities Act. For persons with hearing or speech impairments:

From voice phone ..... (800) 735-2922  
(California Relay Service)  
From TTY/TDD ..... (800) 822-6268  
(Direct line to FTB customer service)

For all other assistance or special accommodations, call  
(800) 852-5711.

### Asistencia bilingüe en español

Para obtener servicios en español y asistencia para completar su declaración de impuestos/formularios, llame al número de teléfono (anotado arriba) que le corresponde.

## Letters

If you write to us, be sure your letter includes your federal employer identification number (FEIN), SOS number, your daytime and evening telephone numbers, and a copy of the notice. Send your letter to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0640

We will respond to your letter within six weeks. In some cases, we may need to call you for additional information. Please do not attach your letter to your California return.

## Where to Get Tax Forms and Publications

**By Internet** – You may download, view, and print 1994 through 2000 California forms and publications. Go to our Website at:  
**[www.ftb.ca.gov](http://www.ftb.ca.gov)**

The IRS also has federal forms and publications available to download, view, or print. The IRS's Website address is:  
**[www.irs.gov](http://www.irs.gov)**

**By phone** – Call our general toll-free phone numbers, listed above under "General Toll-Free Phone Service" to get the California tax forms you need.

**By mail** – Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order. Write to:

TAX FORMS REQUEST UNIT  
FRANCHISE TAX BOARD  
PO BOX 307  
RANCHO CORDOVA CA 95741-0307

**In person** – Most libraries, post offices, and banks provide free California tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules to photocopy (a nominal fee may be required). Please note that employees at libraries, post offices, banks, and quick print businesses cannot provide tax information or assistance.

## Your Rights As A Taxpayer

Our goal at the Franchise Tax Board is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you can request written advice from the Franchise Tax Board on whether a particular transaction is taxable. See "Where to Get Income Tax Forms," on this page for how to get FTB Pub. 4058.

## Field Offices

You can get information, pick up California tax forms, and resolve problems on your account if you visit one of our field offices. The field office hours are 8 a.m. to 5 p.m. However, from January 16 through April 16, 2001 the offices will be extending hours. You can call (800) 338-0505, and enter code 110 when instructed, to find out the extended hours of an office near you.

Field Offices	Address
Bakersfield	1800 30th St, Ste 370
Fresno	2550 Mariposa St, Rm 3002
Long Beach	4300 Long Beach Blvd, Ste 700B
Los Angeles	300 S. Spring St, Ste 5704
Oakland	1515 Clay St, Ste 305
Sacramento	3321 Power Inn Road, Ste 240
San Bernardino	464 W. 4th St, Ste 454B
San Diego	7575 Metropolitan Dr, Ste 201
San Francisco	455 Golden Gate Ave, Ste 7400
San Jose	96 N. Third St, 4th Fl
Santa Ana	600 W. Santa Ana Blvd, Ste 300
Santa Rosa	50 D St, Rm 100
Stockton	31 East Channel St, Rm 219
Van Nuys	15350 Sherman Way, Ste 100
Ventura	4820 McGrath St, 2nd Fl
West Covina	100 N. Barranca St, Ste 600

### Out of State Field Offices

Chicago	1 N. Franklin, Ste 400 Chicago, IL 60606-3401
Houston	1415 Louisiana, Ste 1515 Houston, TX 77002-7351
Long Island	1325 Franklin Ave, Ste 560 Garden City, NY 11530-1631
Manhattan	1212 Ave of the Americas, 4th Floor New York, NY 10036-1601

